1998 Annual Report

FOUR SEASONS
Hotels and Resorts

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Hotels and Resorts

Our Goals, Our Beliefs, Our Principles

Who we are

We have chosen to specialize within the hospitality industry, by offering only experiences of exceptional quality. Our objective is to be recognized as the company that manages the finest hotels, resorts and resort clubs wherever we locate.

We create properties of enduring value using superior design and finishes, and support them with a deeply instilled ethic of personal service. Doing so allows Four Seasons to satisfy the needs and tastes of our discriminating customers, and to maintain our position as the world's premier luxury hospitality company.

What we believe

Our greatest asset, and the key to our success, is our people.

We believe that each of us needs a sense of dignity, pride and satisfaction in what we do. Because satisfying our guests depends on the united efforts of many, we are most effective when we work together cooperatively, respecting each other's contribution and importance.

How we behave

We demonstrate our beliefs most meaningfully in the way we treat each other and by the example we set for one another. In all our interactions with our guests, business associates and colleagues, we seek to deal with others as we would have them deal with us.

How we succeed

We succeed when every decision is based on a clear understanding of and belief in what we do and when we couple this conviction with sound financial planning. We expect to achieve a fair and reasonable profit to ensure the prosperity of the company, and to offer long-term benefits to our hotel owners, our shareholders, our customers and our employees.

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FINANCIAL HIGHLIGHTS

(In millions of dollars except per share amounts)	**1998**	1997	1996
Revenues under management	**$ 2,270.7**	$ 2,119.4	$ 1,901.5
EBITDA(1)	**$ 89.2**	$ 79.1	$ 64.6
Normalized net earnings(2)	**$ 68.8**	$ 52.8	$ 29.9
Normalized earnings per share(2)	**$ 2.04**	$ 1.61	$ 1.04
Cash provided by operations	**$ 75.0**	$ 64.8	$ 43.7
Debt	**$ 165.0**	$ 140.2	$ 240.0
EBITDA(1) coverage of net interest expense	**23.5**	8.9	3.4

(1) Earnings before other operating items, interest and taxes.
(2) Excludes unusual, non-recurring items. In 1998 normalized net earnings excludes foreign exchange gains, provision for loss and loss on repurchase of debt. In 1997 normalized net earnings excludes the loss on repurchase of debt.
(3) All amounts are in Canadian dollars unless otherwise noted.

FORWARD-LOOKING STATEMENTS

When used in the Annual Information Form, the Message to Our Shareholders, and the Management Committee Round Table, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, projected or implied, including, without limitation: competition within each of the Corporation's business segments, the balance between supply of and demand for hotel rooms and vacation ownership units, the Corporation's continued ability to obtain new operating contracts on advantageous terms, the Corporation's relations with current and potential hotel owners and clients, the effect of international, national and regional economic conditions and the availability of capital to fund further investments in the Corporation's businesses. Given these uncertainties, readers are cautioned not to place undue reliance on these statements. The Corporation also undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

All amounts referred to in this document are in Canadian dollars unless otherwise noted.

THE PAST YEAR PROVED TO BE A VERY IMPORTANT ONE IN FOUR SEASONS HOTELS AND RESORTS' FORTY YEAR HISTORY OF MANAGING LUXURY HOTELS.

Isadore Sharp
Chairman and Chief Executive Officer

Continued Earnings Growth

Of significant importance was the continued growth in earnings, as normalized net earnings per share increased by over 26%, despite continuing adverse economic conditions throughout the Asian region. This strong performance was the direct result of Four Seasons' ability to successfully open and stabilize new luxury hotel properties, while continuing to increase hotel revenue in virtually all of its North American and European markets. Profitability levels also continued to improve, as ongoing cost control and operating efficiencies contributed to increasing gross operating profit margins at the majority of the hotels and resorts under our management.

The Corporation's long-term target is to grow net earnings at 20% each year. Since Four Seasons became a public company in 1986, we have increased normalized net earnings at a compound annual growth rate of 23% per annum. The Corporation is well positioned to maintain this growth rate going forward, as we add a number of high quality properties to the portfolio, continue to focus on strong internal growth fundamentals, and leverage our strengthening balance sheet to add new revenue sources to our business base.

While each of these are great successes individually, they are a consequence of a series of decisions made many years ago about the importance of people and the value of a clear definition of collective purpose that is now being recognized as the Four Seasons' "culture."

Specialists in Luxury Hotel Management

Our first defining decision was to specialize in the operation of only medium-sized luxury hotels and resorts. We decided to target business executives and other discriminating travellers who are willing and able to pay a premium price for what they perceive to be real value. For such travellers, the ultimate luxury is not décor, but highly personalized service that feels completely intuitive.

Highly Personalized Service

The second decision was to make exceptional service our distinguishing edge. As a five-star luxury specialist, Four Seasons has spent decades carefully listening to and learning from its customers. The delivery and the improvement in our operating standards is a direct result of hard work and constant

focus at all levels, including corporate initiatives, guest comments, focus group feedback, and employee input. It is also a function of our firm belief that being "good enough" is *never* enough.

The Importance of "Culture"

But it is above all else the direct result of our third major decision, which at the time was merely a theory—our overriding belief that if we were to succeed in the quest for the highest standard of service, the relationship between our customers and employees would need to become the most meaningful.

Intuitive service, which is the hallmark of a Four Seasons experience, comes to life in the interaction between the employee and guest, and can only be realized if employees are productive and content. Accordingly, for Four Seasons our employees *are* our most important asset. And for us this requires more than lip-service. It must be a way of life: a commitment to an ethical code of behaviour that obligates everyone at Four Seasons to treat everyone else—guests, business partners, suppliers, employees—as they themselves would want to be treated.

From the beginning, Four Seasons has operated in accordance with certain understood principles. In 1982, our core values were first put into written form entitled "Our Goals, Our Beliefs, Our Principles," which are reproduced at the front of this report. These ideas, which were developed more than 30 years ago, have stood the test of time and continue to represent the main elements of what we stand for.

Building on these beliefs, our human resource strategy is relatively simple: hire motivated people, train them to be the best they can be, and offer them an environment in which to achieve their goals. Once they join Four Seasons, our staff encounters a management approach based upon respect and leadership by example.

We believe this has been the reason for our success in introducing the Four Seasons brand in new markets—and in replicating the Four Seasons experience, no matter where we operate in the world. Exporting the Four Seasons work ethic does not depend on manuals. It depends on seeding new markets with "culture carriers", skilled at finding similar people in new places.

A *Fortune* magazine survey of the "World's Most Admired Companies" found that the best predictor of overall corporate excellence was "the ability to attract and hold on to talented employees." We believe Four Seasons has the industry's highest proportion of long-term, committed people. Moreover, Four Seasons employees are also among the most contented. In 1998, employee ratings once again ranked Four Seasons as one of Fortune's *Best 100 Companies To Work For* in the US—making Four Seasons the only Canadian-based company to appear on this prestigious list.

The Era of the Brand

Our fourth significant decision was to concentrate on leveraging our brand name, by extending our hotel management business throughout the world, thereby making the name Four Seasons synonymous with the highest standard of quality in the international lodging business.

Brand power, once gained, creates tremendous momentum, as those who have reaped the rewards of a strong global brands can attest. Accordingly, Four Seasons has invested enormous effort in its brand. By laying a strong foundation, and remaining consistent in our approach, we have gained a substantial head start in the most stable sector of the world's largest industry.

In the future, the strength of the Four Seasons brand should help to ensure that we are considered for almost all new luxury hotel projects throughout the world, and that we have the opportunity to extend the Four Seasons brand into complementary businesses, as we did with luxury vacation ownership, where such endeavours support and enhance our core business strategy.

We believe that our strong cash flow position and our special relationships with significant capital sources should help to ensure that we are able to capitalize on these opportunities as well. Moreover, our ability to leverage the Four Seasons brand when introducing and stabilizing new hotel properties, should help to build on our existing foundation for long term success, contributing to the ongoing prosperity of Four Seasons and the enhancement of shareholder value.

Conclusion

According to many management experts, companies that enjoy strong reputations and outstanding business performance over several generations of management have strong and consistent core philosophies and values that are preserved over the long term, through good times and bad. These companies also relentlessly experiment and improve the way they do business, never being satisfied that things are being done as well as possible. We believe that Four Seasons demonstrates both of these characteristics.

We at Four Seasons all share strong core values, where the pursuit of excellence is a never-ending journey, where respect for each other is paramount, and where achieving profitability is a consequence of, not an alternative to, our beliefs. We also are committed to promotion from within, with each level of management, even at the most senior levels, being drawn from inside Four Seasons. It is our view that these people, those who share our core value system, and who are committed to sustaining it, are in the best position to ensure the success of Four Seasons as we move confidently into the 21st century.

ISADORE SHARP

Chairman and Chief Executive Officer

Four Seasons Management Committee consists of:
Isadore Sharp, Chairman and Chief Executive Officer; John L. Sharpe, President and Chief Operating Officer; H. Roger Garland, Vice Chairman; Antoine Corinthios, President, Europe, Africa and Middle East; Wolf H. Hengst, Executive Vice President, Operations; Douglas L. Ludwig, Executive Vice President, Chief Financial Officer and Treasurer; Anthony Sharp, Executive Vice President, Vacation Ownership; Barbara M. Talbott, Executive Vice President, Marketing; Kathleen Taylor, Executive Vice President and Chief Corporate Officer; Christopher Wallis, Executive Vice President, Design and Construction; and John W. Young, Executive Vice President, Human Resources.

Q

The rapid expansion of the Four Seasons portfolio expected over the next few years must be a significant operational challenge. How will you ensure that the Four Seasons guest experience is not diluted?

John L. Sharpe, *President and Chief Operating Officer*

A

Over the next three years Four Seasons will undergo the largest expansion of its hotel and resort portfolio in its history. Planning for this program began a number of years ago to ensure that we remain focused on maintaining and enhancing Four Seasons' service culture, the high quality of our employees and our industry-leading service standards. This process is intended to ensure that our clients' expectations will be met or exceeded in both existing properties and new hotels and resorts.

Four Seasons' involvement in a hotel begins long before its opening day. We place a significant emphasis on the design and layout of properties to provide demonstrably superior physical characteristics and facilitate effective service delivery. Although no two Four Seasons hotels are alike, each new hotel includes the ongoing design improvements and quality standards that our design and construction team has accumulated over the past three decades.

Another critical factor in a hotel's opening and ongoing success is the execution of a sales and marketing plan designed specifically for that hotel. To support the hotels under management, Four Seasons has a dedicated global support network that includes corporate brand activities, 13 worldwide sales offices and a worldwide reservation system. Over the past several years we have successfully introduced many new Four Seasons hotels, and also rebranded existing properties in locations such as Lisbon, the Maldives and Atlanta. Our marketing plans include specific sales objectives for each of the new hotels, both for local sales people and for the support network. Public relations and advertising programs, as well as the sales effort, generally begin 12 to 24 months prior to the opening of the hotel.

The most important opening challenge is the staffing of the hotel. The General Manager is in place at least 12 months before opening, usually having been recruited from within the Four Seasons system. The other department heads are also identified and in place many months before the hotel opens. The General Manager and his or her senior team's top priority in the pre-opening period is to conduct the hiring of the hotel's entire staff, the key element to Four Seasons' service consistency. At each hotel we hire motivated people, put them through an intensive Four Seasons' training program and offer them an environment which treats them with respect and dignity.

H. Roger Garland,
Vice Chairman

The people who join Four Seasons already possess a "Four Seasons' attitude"—self-motivated, pleased when others are well-served—and are always trying to improve their performance and to develop new ways of doing things. Staying committed to this hiring process means a great deal of time is devoted to recruitment in both new and existing hotels. Literally tens of thousands of applications are reviewed in some openings, and thousands of interviews take place. Before each employee is hired he or she is interviewed several times including an introduction to the General Manager of that hotel.

Christopher Wallis,
Executive Vice President
Design and Construction

We believe that our ability to operate at a very consistent standard, around the world, is a fundamental strength of Four Seasons. Over the past 40 years Four Seasons has grown from a Canadian-based company to a global enterprise, dedicated to operating the finest hotel in each location served. Over this time we have been able to attract and retain a very unique employee group and management team. Long accustomed to working together, we are able to refine and improve our product as we grow.

Kathleen Taylor,
Executive Vice President
and Chief Corporate Officer

With employees being so critical to Four Seasons' success how do you attract and maintain them?

Four Seasons' recruitment program concentrates on attracting the right people through our "Employer of Choice" campaign. We identify candidates who have a natural friendliness with a genuine desire and motivation to exceed our guests' service expectations. We recruit personnel through a variety of sources, one important resource being our college and university recruitment program. Also, at the local hotel level, we attract a diverse group of hotel or culinary graduates. We are also fortunate to be able to attract and recruit when necessary many of the best people from outside Four Seasons.

Four Seasons has a variety of training programs that are available to our employees at different stages of their careers. Each of the programs integrates Four Seasons' core values. Four Seasons' sustainable advantage is its ability to create and maintain a high-performance workforce that consistently delivers to our customers the highest service standards in the industry.

We strongly believe in promotion from within, advancing people who share our core value system and who are committed to sustaining it in the years ahead. We prepare them for career development through training, cross cultural exposure, management development reviews and a career succession plan. Managing the whole employee process from recruitment through promotions is our most important task.

Q Many of the lodging analysts and industry consultants have been discussing the deceleration of REVPAR growth, particularly in North America. Do you agree that REVPAR deceleration will be a trend in 1999 and if so how will it affect Four Seasons' growth?

A *REVPAR is an important benchmark of how existing hotels are performing, as it measures the product of achieved occupancy and room rate. With the exception of the Asian market, since late 1997, Four Seasons has achieved both the highest REVPAR and highest rate of growth in REVPAR over the past eight years in the lodging industry. With approximately 70% of our fee revenues generated by our North American hotels, the REVPAR trends in North America are the most critical in measuring the year-over-year growth for the existing Four Seasons hotels. Since 1992, we increased REVPAR on a U.S. dollar basis at the Four Seasons' North American hotels by 16% per annum. In 1998, at the latter stages of the economic cycle in North America we have realized a 7.9% increase in REVPAR and are expecting REVPAR growth to be approximately 5% in 1999. Although the rate of REVPAR growth is declining, 85% of our 1998 earnings growth was generated by new unit additions and improvements to existing management agreements. In the next few years we expect to see the vast majority of our earnings growth realized from new unit growth rather than from internal growth, although we expect REVPAR growth of existing hotels to continue to be at an industry-leading level. We believe that Four Seasons geographic diversity and primary focus on hotel management should allow the Corporation to meet its earnings objectives regardless of the prevailing economic cycle. In addition, the Corporation's strong balance sheet and free cash flow from our hotel management business provides Four Seasons with substantial capacity to act on additional management opportunities as they arise.*

Douglas L. Ludwig,
Executive Vice President, Chief Financial Officer and Treasurer

Anthony Sharp,
Executive Vice President Vacation Ownership

Wolf H. Hengst,
Executive Vice President Operations

Since late 1998 there has been a lot of discussion about the contraction in the capital markets and how this could affect the construction of new hotels. Has the Four Seasons development program been affected by the contraction of the capital markets?

At this time we have not seen any negative effect on the development program for our new hotels. Because we have the leading luxury hotel global brand which is supported by the largest sales and reservations network in the luxury sector Four Seasons has established itself as the manager of choice for luxury hotels and resorts around the world. Four Seasons has also developed strong relationships with a number of strategic partners, including significant financial institutions, private investment funds and wealthy individuals. As virtually all of our hotel equity investors are private capital sources, they are not dependent upon the public equity markets. Also, our new projects have strong projected financial returns because they may be, for example, part of a larger mixed-use development, or they are entering into markets with little or no existing supply of luxury hotel rooms.

John W. Young,
Executive Vice President
Human Resources

Barbara M. Talbott,
Executive Vice President
Marketing

Antoine Corinthios,
President Europe,
Africa and Middle East

In addition to the other standard benchmarks used to predict a company's near and long-term financial success, more research coverage and analysis is including Economic Value Added ("EVA") as a measurement. What is your view on EVA as a benchmark?

Although EVA is not yet a widely used method of analyzing a company's ability to create long-term shareholder value, it is gaining recognition and we believe that EVA is an important predictor of a company's financial success. The basic fundamental of EVA is that a company that earns a real rate of return in excess of its cost of capital is adding value to the capital it employs and this should be reflected in its market value. Over the past number of years, we have positioned Four Seasons to perform well from an EVA standpoint. The Corporation's capital structure yields a very low cost of capital. The Four Seasons brand strength and high barriers to entry into luxury hotel management allow us to generate long-term revenue streams with relatively modest capital investment. Since making the decision to focus on hotel management we carefully assess the risks when we deploy our capital and consistently achieve returns over our cost of capital. We have realized eight consecutive years of revenue and profit margin growth, which has steadily improved our return on capital employed. We have also reduced the capital deployed in certain hotel investments to further

improve our returns on capital and to allow us to redeploy the capital in higher return new investments. Based on a recently issued research report, Four Seasons was identified as having the highest positive spread between its return on capital over its cost of capital in the lodging industry, which positions us well for future value creation.

What initiatives has Four Seasons undertaken to ensure that year 2000 issues are being dealt with?

Four Seasons is committed to ensuring, to the extent within our power, the year 2000 problem will not impede our ability to deliver the highest levels of service and safety to the guests of our managed hotels and resorts worldwide, and that our employees will continue to benefit from a safe and favourable working environment. To meet the expectations of our guests and employees, and to ensure the continuity of our business process, we established a year 2000 steering committee in 1997 and directed this group to oversee the Corporation's approach to the year 2000 problem. The steering committee established a ten-point strategic plan to address the Corporation's year 2000 issues. The details of the plan are being revised as necessary to address the daily evolution of the Corporation's compliance efforts worldwide.

Although Four Seasons is diligently executing its compliance program to resolve the year 2000 problem throughout the Corporation and the hotels and resorts under its management, it is impossible to provide guaranteed assurances of total year 2000 compliance for the Corporation's hotel and resorts. Due to the reality that many factors are beyond the Corporation's control and therefore, total compliance is impossible to assure, Four Seasons is developing and will implement appropriate contingency plans for critical and important systems in order to ensure the continuity of its operations in the event of system failures. Development of these contingency plans will be co-ordinated and approved by senior management and will be implemented at all levels of the Corporation and its managed properties.

Four Seasons is taking all reasonable actions throughout the Corporation to address the year 2000 problem. We are confident that Four Seasons will continue to operate into the 21st century with no interruption of services and with little or no inconvenience to our guests and employees.

Four Seasons Hotels and Resorts are well located in key business centres and leisure destinations around the world. These hotels and resorts are supported by a fully integrated global sales and reservations system that provides international coverage.

North America

1. Atlanta
2. Austin
3. Aviara
   Resort and *Resort Club*
4. Boston
5. Chicago
6. Chicago
   The Ritz-Carlton
7. Dallas *at Las Colinas*
8. Hawaii
   Hualalai at Historic Ka'upulehu
9. Houston
10. Las Vegas
11. Los Angeles
12. Los Angeles
    (The Regent Beverly Wilshire)
13. Maui *at Wailea*
14. Mexico City
15. Miami
16. Nevis
17. New York
18. New York
    The Pierre
19. Newport Beach
20. Palm Beach
21. Philadelphia
22. Punta Mita, Mexico
    Resort and *Resort Club*
23. San Francisco
24. Santa Barbara
25. Scottsdale
    Resort and *Resort Club*
26. Seattle
27. Toronto
28. Vancouver
29. Washington, D.C.

South America

30. Caracas

Asia / Pacific

31 Bali *at Jimbaran Bay*
32 Bali *at Sayan*
33 Bangkok *(The Regent)*
34 Chiang Mai *(The Regent) at Mae Rim Valley*
35 Hong Kong *(The Regent)*
36 Jakarta *(The Regent)*
37 Kuala Lumpur *(The Regent)*
38 Kuda Huraa, Maldives
39 Shanghai
40 Singapore
41 Singapore *(The Regent)*
42 Sydney *(The Regent)*
43 Taipei *(Grand Formosa Regent)*
44 Tokyo *at Chinzan-so*

Europe

45 Berlin
46 Bodrum
47 Budapest
48 Dublin
49 Istanbul
50 Lisbon *(Ritz)*
51 London
52 London *(Canary Wharf)*
53 Milan
54 Paris
55 Prague

Middle East

56 Amman
57 Cairo *at The First Residence*
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Business of Four Seasons

Four Seasons Hotels Inc.[1] was incorporated under the Business Corporations Act (Ontario) on January 6, 1978.[2] FSHI's registered and principal office is located at 1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8. The Limited Voting Shares of FSHI are listed on The Toronto Stock Exchange and the Montreal Exchange under the symbol FSH and the New York Stock Exchange under the symbol FS.

Four Seasons is one of the world's leading managers of luxury hotels and resorts. Four Seasons manages 43 luxury hotel and resort properties containing approximately 13,200 guest rooms, primarily under the Four Seasons and Regent brand names, in principal cities and resort destinations in 18 countries in North America, Europe, Asia, Australia, and the Caribbean. In addition, 18 hotels and resorts are under construction or development. Ten of these projects are in countries where Four Seasons does not currently manage a hotel. (A chart summarizing the hotels and resorts managed and under construction or development by Four Seasons is set out on pages 20 through 22). The Corporation's strategy is to offer business and leisure travellers the finest hotel and resort accommodation in each destination it serves.

Four Seasons earns revenue from both hotel management and hotel ownership operations. In early 1997, the Corporation completed an asset disposition program initiated in 1993 and is now principally a hotel management company. During 1998, the Corporation disposed of two additional ownership interests.[3] In contrast to more volatile hotel ownership operations, hotel management operations tend to generate relatively stable earnings and cash flow for the Corporation and should provide a more solid platform for Four Seasons' future growth. In 1998, 90% of the Corporation's earnings before other operating items was generated by its hotel management business.

Under its management agreements, Four Seasons generally supervises all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons typically receives a base fee calculated as a percentage of gross revenues of the hotel. In addition, Four Seasons may receive incentive fees based on the operating performance of the hotel.[4]

Four Seasons makes minority investments in, or loans in respect of or to, properties where it is necessary to obtain new management agreements or improve existing management agreements and when the overall economic return to Four Seasons justifies the investment. The Corporation generally seeks to limit its total capital exposure to no more than 20% of the total equity required for the new property, and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its ownership interests separately from its management interests so as to enable the Corporation to dispose of ownership interests as sale opportunities arise, without affecting its management interests. Four Seasons holds an ownership interest in, or has loans in respect of or to, 11 of the 43 hotels and resorts currently under management.[5]

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1 "FSHI" means Four Seasons Hotels Inc. "Four Seasons" or the "Corporation" means, collectively, FSHI and all its subsidiaries, including Four Seasons Hotels Limited ("FSHL") and FSR International Hotels Limited, formerly known as Regent International Hotels Limited ("Regent").

2 The articles of FSHI were restated in 1986 to consolidate prior amendments and were amended in 1989 to subdivide each Subordinate Voting Share and each Multiple Voting Share on a 2:1 basis and to create an unlimited number of special shares designated as First Preference Shares and Second Preference Shares. In 1996 the articles were further amended to redesignate the Subordinate Voting Shares as Limited Voting Shares and to create 4,171,924 special shares designated as Variable Multiple Voting Shares, which replaced and have substantially the same rights, privileges, restrictions and conditions as did the Multiple Voting Shares, except that the number of votes per Variable Multiple Voting Share generally increases as Limited Voting Shares are issued and dividends on the Variable Multiple Voting Shares will be in an amount per share equal to 50% of the dividends per Limited Voting Share.

3 Please see the discussion regarding these dispositions and certain investments made during 1998 in the Hotel Ownership section of the Management's Discussion and Analysis.

4 See "Hotel Management Operations" beginning on page 25. For more detailed description of the Corporation's ownership interest please see "Hotel Ownership Operations."

5 See "Hotel Ownership Operations" beginning on page 25.

In order to further capitalize on the value of the Four Seasons brand, the Corporation has begun to license and manage luxury vacation ownership projects. The Corporation is to receive fees for the use of the Four Seasons brand in connection with the sale of the vacation ownership units in these projects, and for services provided in the oversight of the sales and marketing of the vacation ownership units. In addition, the Corporation is to receive fees from the owners of the vacation ownership units for services provided in the ongoing management of these units.

To help realize the growth potential of the Regent brand, in 1996 the Corporation entered into an agreement with the Carlson Hospitality Group of Minneapolis ("Carlson"). Pursuant to the arrangement Carlson is franchising the Regent brand, and the Corporation will receive a share of the franchise revenue generated by Carlson. Under the agreement, Four Seasons continues to manage nine Regent hotels.[6]

Competitive Strengths

The hotel industry is highly competitive. The Corporation believes that it has several distinguishing competitive strengths, including:

Strong Brand Recognition

Four Seasons hotels and resorts are widely recognized for the exceptional quality of their guest facilities, service and atmosphere, and have been named more frequently than any other competitor among the world's best hotels and travel experiences by Institutional Investor, Condé Nast Traveler, AAA Five Diamond and others. The Corporation believes that its brand name recognition cannot easily be replicated by competitors, as it is dependent upon the establishment of a global chain of unique properties of the highest quality.

Superior Hotel Operating Results

Four Seasons generally has average room revenue per available room ("REVPAR") and operating profit margins for hotels under its management above the average achieved in the luxury segment of the lodging industry. Four Seasons believes that owners and developers of luxury hotels worldwide are attracted to the Corporation as a result of the superior financial performance of the hotels under its management.

Global Presence

Four Seasons manages a global portfolio of 43 luxury hotels and resorts in 18 countries. Eighteen additional properties are under construction or development. Ten of these are in countries in which the Corporation does not currently manage a hotel. Hotels currently managed by Four Seasons are located in major international financial centres, such as London, New York, Chicago, Washington, Los Angeles, Toronto, Milan, Tokyo, Singapore, Hong Kong and Sydney, as well as in emerging international markets, such as Berlin and Mexico City. In addition, Four Seasons manages resorts in world-class destinations, such as California, Hawaii, Nevis and Bali. Four Seasons anticipates that it will continue to expand in urban and resort destinations where consumer demand warrants a luxury property. In 1998, approximately 84%, 9%, and 7% of the Corporation's consolidated revenues were derived from hotels and resorts in North America, Asia and Europe, respectively. The Corporation maintains a fully-integrated global reservation and sales office system that provides international sales coverage for the Four Seasons properties.

6 See discussion under "Regent Joint Venture" on page 18.

Hotel Management Focus

As a result of an extensive asset disposition program carried out between 1993 and 1997, and through the addition of a number of new management agreements, Four Seasons is now principally a global hotel management company. Although Four Seasons will continue to make loans or investments to secure long-term management contracts, these investments will generally be minority interests and will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment.

Management agreements for the hotels and resorts managed by the Corporation generally are long-term, having an average remaining term of approximately 57 years for Four Seasons hotels and approximately 16 years for Regent hotels, including extension periods available at Four Seasons' option. These agreements entitle Four Seasons to earn base fees, as well as a range of fees for pre-opening development, purchasing, marketing and reservation services. The Corporation has the ability to participate in the profits of the hotels under its management through incentive fees available at 39 hotels and resorts under management. These incentive fees are generally based on the defined operating profits of the hotel or resort. In 1998, Four Seasons received incentive fees from 30 of its hotels and resorts. During the same period, 31 of the hotels and resorts under its management each generated over $1.0 million annually in base and incentive fees, and the average base and incentive fees earned for all managed hotels were $2.2 million per hotel or resort.

Strategic Relationships

Strategic relationships are an important source of financing for future development opportunities to expand Four Seasons' hotel management operations. Four Seasons has established relationships with numerous institutional and private equity sources that invest in and develop luxury hotel properties. Several of the existing owners have an ownership interest in more than one Four Seasons hotel or resort. One owner has an ownership interest in five hotels and two others have an ownership interest in four hotels. In addition, in 1994, a company controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud ("Prince Alwaleed") purchased a significant minority position in FSHI. Since purchasing its interest in FSHI, companies controlled by Prince Alwaleed (collectively "Kingdom") have purchased a majority interest in the Four Seasons Hotel London, and have purchased the Hôtel George V in Paris, which Four Seasons expects to manage as a Four Seasons hotel in late 1999 when it reopens following an extensive renovation program. Kingdom also has a minority interest in the Four Seasons resorts in Aviara. Kingdom has invested or is expected to make a minority investment in a number of additional properties under various stages of development that the Corporation expects to manage under the Four Seasons brand name, such as the Four Seasons hotels in Kuda Huraa, Maldives; Cairo; Amman; and Riyadh.

Strong Management Team

Four Seasons' corporate executive management team consists of 11 individuals who are responsible for the global strategic direction of the Corporation and who have an average of 18 years of experience with Four Seasons. This team is supported by 19 corporate vice presidents, who are responsible for various aspects of the Corporation's daily operations, as well as by 47 general managers, who together have an average of 13 years of experience with Four Seasons. It is a fundamental strategy of Four Seasons to develop its senior management team from within to ensure consistency of the service culture and work ethic.

Strong Competitive Position

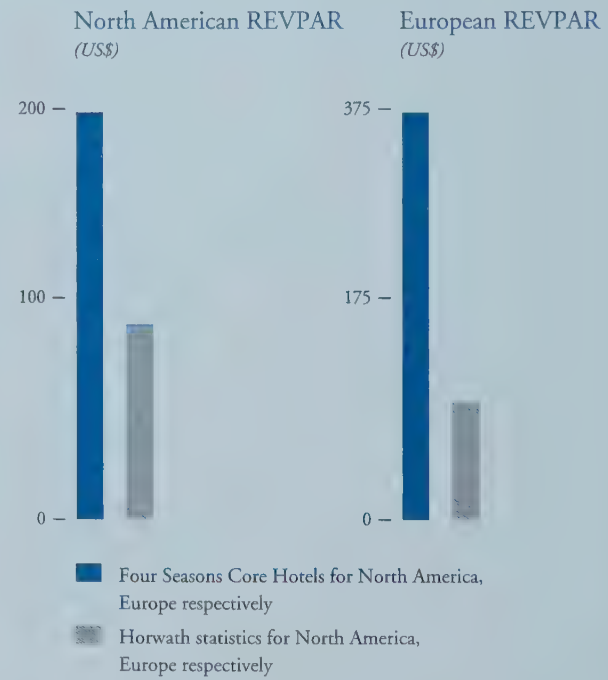
The Corporation believes that its competitive position is strengthened by the significant barriers to entry into the luxury segment of the hotel management business. Those impediments include the time and significant capital resources required to establish a well recognized luxury brand name and to obtain management contracts for luxury properties in key locations in strategic markets worldwide. The Corporation also believes that it has developed a unique service culture, depth of management expertise and multiple capital resources over its 38-year history that would be difficult to replicate.

Business and Growth Strategy

The business strategy of Four Seasons is to continue to enhance its industry position and overall profitability through a focused international expansion program that capitalizes on the strengths of its core hotel management operations and the global value of its brand name. In 1998, revenue generated by the hotels and resorts managed by Four Seasons exceeded $2.2 billion. The Corporation's consolidated revenues from hotel management and hotel ownership from these properties in 1998 was $249 million. From 1993 through 1998, the Corporation increased its hotel management earnings at a compounded annual rate of growth of over 23% from $27.9 million in 1993 to $79.9 million in 1998, and the profit margin from hotel management operations over this period increased from 46% to 63%.

The Corporation believes that the strength of its brand name, its global marketing presence and its operational expertise result in REVPAR premiums and strong operating profitability for luxury hotels under its management, providing Four Seasons with a competitive advantage in obtaining new management contracts worldwide. REVPAR for Core Hotels[7] in North America and Europe, during 1997, the most recent year for which comparable data is available, was US$198 and US$342, respectively, 111% and 222% higher than the REVPAR of the North American and European luxury segments, respectively, as compiled by Horwath International.[8]

The Corporation's growth strategy is to seek to utilize its competitive strengths to increase earnings, cash flow, hotel owners' returns, and shareholder value by continuing to improve the performance of its existing hotel portfolio, by generating profitable growth through the acquisition of new management contracts and by capitalizing on opportunities to leverage its luxury brand name through compatible business extensions such as vacation ownership.



Growth from Existing Properties

Four Seasons believes opportunities exist for growth within its existing and newly opened properties by increasing market share and REVPAR, thereby improving the hotels' profitability and in turn Four Seasons' fee revenues and ownership earnings. From 1997 to 1998, REVPAR for Core Hotels in North America and Europe increased approximately 8% and 7%,

7 The term "Core Hotels" means hotels and resorts which have been managed by the Corporation throughout the year and the previous year. The Core Hotel concept is used to give year over year comparisons.

8 Horwath and Smith Travel Research.

respectively, and declined in Asia approximately 27% as a result of economic turmoil in the region. Gross operating profit margins for Core Hotels in North America and Europe increased as a percentage of total hotel revenue from 33.2% and 41.3%, respectively, in 1997 to 35.4% and 42.4%, respectively, in 1998. As a result, incentive fees increased 30.5% to $32.1 million in the year ended December 31, 1998.

REVPAR Statistics—Core Hotels (in US$)

Region	Occupancy		Average Room Rate		REVPAR	
	1998	1997	**1998**	1997	**1998**	1997
North America	**74.5%**	75.3%	**$ 287**	$ 263	**$ 214**	$ 198
Europe	**78.5%**	79.2%	**$ 465**	$ 432	**$ 365**	$ 342
Asia	**59.9%**	67.9%	**$ 160**	$ 194	**$ 96**	$ 131
All Core Hotels	**69.7%**	72.9%	**$ 258**	$ 248	**$ 180**	$ 181

New Hotel and Resort Opportunities

Having established a network of luxury hotels in many of the world's key financial centres, future expansion is expected to occur primarily in locations that satisfy Four Seasons' objectives of better servicing the travel needs of its existing customer base and attracting new international business travellers to its managed hotels and resorts worldwide. Four Seasons expects that future growth will be in the form of new hotels and resorts or the conversion of existing hotels and resorts and will focus on Europe, the Middle East, South America and Africa, as well as selected urban and resort locations in the United States and the Caribbean, where significant consumer demand warrants a luxury hotel or resort property. Overall, Four Seasons plans to increase the number of resorts it manages in order to serve the leisure travel needs of its customers, which should reduce the seasonality of its cash flows. Four Seasons currently has 18 new hotels and resorts under construction or development and is evaluating over 50 additional management opportunities in various locations around the world.

The Corporation believes that it will continue to have the opportunity to consider and enter into appropriate new hotel and resort management agreements as a result of its competitive strengths. In early 1999, the Corporation assumed management of the Four Seasons Hotel Las Vegas. In addition, the Corporation expects to assume the management of five additional hotels and resorts: Four Seasons Hotel First Residence Cairo, Egypt; Four Seasons Hotel Canary Wharf, London, England; Four Seasons Hotel, George V Paris, France; Four Seasons Resort Punta Mita, Mexico; and Four Seasons Resort Scottsdale, Arizona, USA. For details on these and other hotels under construction or advanced stages of development see chart on page 22.

Luxury Vacation Ownership and Residential Properties

As part of its program to leverage its brand name and capitalize on its existing operational and marketing base, Four Seasons is exploring opportunities, such as luxury vacation ownership properties and serviced residential real estate developments integrated with Four Seasons managed hotels and resorts. In 1997, Four Seasons began the sales and marketing of the first Four Seasons Resort Club, a luxury vacation ownership property adjacent to the Four Seasons Resort Aviara in southern California. Other luxury vacation ownership projects are under construction in connection with the Four Seasons resorts being built in Scottsdale, Arizona and Punta Mita, Mexico. The sales and marketing of both of these resort clubs is expected to commence in 1999. Four Seasons anticipates pursuing similar vacation ownership and residential development initiatives in a number of its future resort and urban developments. Four Seasons expects to earn a range of management fees for the provision of management services in connection with these projects and to receive fee income for overseeing the sales and marketing of the vacation ownership projects, including royalty fees for the use of the Four Seasons brand name.

Four Seasons Resort Club	Approximate Number of Units	Commencement of Sales
Four Seasons Resort Club Aviara	240	1997
Four Seasons Resort Club Punta Mita	100	1999 (E)
Four Seasons Resort Club Scottsdale	100	1999 (E)

Regent Joint Venture

The Corporation also expects to earn fee income from its December 1996 alliance with Carlson, which is intended to enhance the future development of Regent hotels around the world. The Corporation believes that the growth potential for the Regent brand inherent in this strategic joint venture surpasses the level the Corporation would have been able to achieve for Regent on its own. Carlson is a global leader in hospitality services and marketing, and has been a successful brand franchisor.

Under the terms of its December 1996 alliance, Carlson acquired the rights to the Regent name for new development and has created a luxury hotel division that is engaged in a development program to expand the chain of Regent hotels through the addition of new franchise arrangements and management contracts under the Regent brand. Four Seasons continues to manage nine Regent hotels and has the opportunity, and in certain circumstances the obligation, to manage new Regent hotels that require management.

In addition to its share of management fees from new Regent hotels, Four Seasons is entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new franchise development effort. These payments will be nominal in 1999 and thereafter will be determined by the future success of the new enterprise to generate revenue. Carlson is responsible for the operating costs relating to the Regent venture. The goal of the alliance is to maximize the global value of the Regent brand name by creating a larger chain of Regent properties throughout the world.

As at March 10, 1999, Carlson has announced the following new Regent projects:

Hotel	Number of Rooms	Expected Opening
The Regent Almaty, *Kazakstan*	290	1999
The Regent Grand Palms, *Las Vegas, USA*	253	1999
The Regent Grand Spa, *Las Vegas, USA*	287	1999
The Regent Resort Las Cabos, *Mexico*	128	2001
The Regent Mexico City, *Mexico*	94	2000
The Regent Mumbai, *India*	508	1999
The Regent, *New York*	140	1999
The Regent Resort at Punta Maroma, *Mexico*	200	2001
The Regent Vancouver, *Canada*	184	2001

Cash Flow Growth

The cash flow dynamics of the Corporation have changed as a result of its growth as a hotel management company. The Corporation does not require large amounts of capital to maintain existing management agreements or its hotel ownership positions, which are typically minority interests. In 1998, the Corporation utilized most of its operating cash flow to make investments that allowed the Corporation to obtain new or enhanced management agreements.

Industry Awards

Four Seasons and Regent have each gained worldwide reputations for quality, service and innovation in the luxury segment of the business and leisure travel market. These reputations have been widely acknowledged by the following leading surveys of hotel properties:

Institutional Investor

Sixteen Four Seasons hotels were ranked among the world's top 75 hotels in a survey of international financiers published in the September 1998 issue of Institutional Investor. The company also had 12 hotels in the "Top 30" Regional America's Ranking.

AAA Five Diamond Awards

Four Seasons properties received 15 of the lodging awards for 1999. The Four Seasons Hotel Vancouver has received the American Automobile Association Five Diamond Award every year since the awards began in 1977. In addition, in 1999, four Four Seasons restaurants received the prestigious Five Diamond Award for Restaurants, including Truffles Restaurant at the Four Seasons Hotel Toronto.

Condé Nast Traveler's Readers' Choice Awards

Seventeen Four Seasons properties ranked among the world's top 100 list in the Condé Nast Traveler's 1998 Readers' Choice Awards. Eleven Four Seasons hotels were ranked in the "Top 25 North American Hotels" category. The Regent Hong Kong was named number one in the "Top 20 Pacific Rim Hotels," and Four Seasons Resort Bali at Jimbaran Bay was ranked number one in the "Top Asian Resorts" category.

Travel & Leisure

Travel & Leisure's "World's Best" awards in September 1998 listed 18 Four Seasons and Regent hotels among the "Top 100 Hotels" including four within the top 15. Four Seasons Resort Nevis ranked number one in the Caribbean for the second year in a row.

Andrew Harper's Hideaway Report

Twelve Four Seasons properties received honours in the annual readers' survey on "The World's Best Hotels & Resorts." Four Seasons Hotel Chicago led the "Top US City Hotels" list for the third year in a row. Seven Four Seasons properties were rated among the "Top Hotels in Major World Cities."

A Description of Hotels and Resorts

Four Seasons properties are comprised of luxury hotels and resorts whose target customers are principally business travellers, corporate and incentive groups and discriminating leisure travellers. Four Seasons urban hotels generally are centrally located in the commercial and financial districts of the world's leading cities in North America, Asia and Europe. Four Seasons luxury resorts provide extensive recreational facilities and meeting facilities to attract upscale leisure travellers and groups. The following table sets forth certain information relating to each property managed by Four Seasons:

Properties Managed by Four Seasons:

Hotel/Resort and Location	Number of Rooms	Equity Interest of Four Seasons
North America		
Four Seasons Hotel Atlanta, *Georgia, USA*	246	—(1)
Four Seasons Hotel Austin, *Texas, USA*	292	—
Four Seasons Resort Aviara, *California, USA*	331	7.3%(2)(3)
The Regent Beverly Wilshire Hotel (Beverly Hills), *California, USA*	395	—
Four Seasons Biltmore Resort (Santa Barbara), *California, USA*	234	—
Four Seasons Hotel Boston, *Massachusetts, USA*	288	—
Four Seasons Hotel Chicago, *Illinois, USA*	343	—(4)
The Ritz-Carlton Hotel Chicago, *Illinois, USA*	430	—(4)
Four Seasons Hotel Houston, *Texas, USA*	399	—
Four Seasons Resort Hualalai (Kona), *Hawaii, USA*	250	—
Four Seasons Resort and Club Las Colinas (Dallas), *Texas, USA*	357	—
Four Seasons Hotel Las Vegas, *Nevada, USA*	425	—
Four Seasons Hotel Los Angeles, *California, USA*(7)	285	—
Four Seasons Resort Maui at Wailea, *Hawaii, USA*	380	—
Four Seasons Hotel Mexico City, *Mexico*	239	—
Four Seasons Resort Nevis, *Nevis*	196	—
Four Seasons Hotel Newport Beach, *California, USA*	285	—
Four Seasons Hotel New York, *New York, USA*	370	—
Four Seasons Resort Palm Beach, *Florida, USA*	210	—
Four Seasons Hotel Philadelphia, *Pennsylvania, USA*	371	—
The Pierre (New York), *New York, USA*	202(5)	100%(6)(7)
Four Seasons Olympic Hotel (Seattle), *Washington, USA*	450	3.4%(7)
Four Seasons Hotel Toronto, *Ontario, Canada*	380	—(8)
Four Seasons Hotel Vancouver, *British Columbia, Canada*	385	100%(7)(9)
Four Seasons Hotel Washington, *District of Columbia, USA*	256	—

Properties Managed by Four Seasons *(continued)*:

Hotel/Resort and Location	Number of Rooms	Equity Interest of Four Seasons
Asia/Pacific		
Four Seasons Resort Bali at Jimbaran Bay, *Indonesia*	147	—
Four Seasons Resort Bali at Sayan, *Indonesia*	47	—
The Regent Hotel Bangkok, *Thailand* (10)	400	—
The Regent Resort Chiang Mai, *Thailand*	67	—
The Regent Hong Kong, *Hong Kong*	602	25% (7)(11)
The Regent Hotel Jakarta, *Indonesia*	384	— (2)(12)
The Regent Hotel Kuala Lumpur, *Malaysia*	469	—
Four Seasons Resort Kuda Huraa, *Maldives*	100	— (13)
Four Seasons Hotel Singapore, *Singapore*	257	—
The Regent Hotel Singapore, *Singapore*	441	—
The Regent Hotel Sydney, *Australia*	594	— (14)
The Regent Hotel Taipei, *Taiwan* (15)	553	—
Four Seasons Hotel Tokyo, *Japan*	283	—
Europe		
Four Seasons Hotel Berlin, *Germany*	204	100% (7)(16)
Four Seasons Hotel Istanbul, *Turkey*	65	—
Four Seasons Hotel, The Ritz Lisbon, *Portugal*	270	—
Four Seasons Hotel London, *England*	227	12.5% (7)(17)
Four Seasons Hotel Milan, *Italy*	98	—

(1) The Corporation has advanced a loan of US$7.5 million in connection with the acquisition of the management of this hotel.
(2) Freehold interest.
(3) The Corporation also has a 7.3% equity interest in the Four Seasons Resort Club Aviara, a vacation ownership project, that is intended to have 240 units at full build out.
(4) The Corporation sold its ownership interest in 1998. See discussion in Management's Discussion and Analysis.
(5) Includes 30 cooperative suites leased from individual owners and operated as hotel rooms.
(6) Initial term of lease expires in January 2002. The Corporation has the option to renew for a further 30 years (three 10 year renewals) on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 34.)
(7) Leasehold interest.
(8) The Corporation has extended a capital loan of $1.9 million.
(9) Initial term of lease expires in January 2000. The Corporation has given notice of its intent to renew for a further 20 years on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 34.)
(10) Management agreement expires in December 2005.
(11) Initial terms of operating lease and management agreement expire in December 2000. There is an option to extend the lease agreement for an additional 10 years. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. While Four Seasons does not control the extension rights, it intends to take whatever action may be necessary to protect its interest in the lease and its interest in the management agreement.
(12) Four Seasons has advanced a loan of US$5.0 million which is convertible into a 5% equity interest in the hotel, subject to regulatory approval. Given the financial condition of the hotel, the full amount of the loan is not expected to be recovered and was fully provided for in a prior year.
(13) The Corporation is expecting to make an equity interest, and has agreed to make a capital loan of up to US$4 million to improve and expand the resort.
(14) The Corporation has extended a loan of AUS$12.8 million which will be converted into an equity interest of no more than 20%, upon the satisfaction of certain conditions being met. The Corporation may make an additional loan for a capital program being contemplated for the hotel.
(15) Management agreement expires in December 2000. However, the annual base management fee of US$1.9 million from the hotel ceased in 1998.
(16) See discussion in Management's Discussion and Analysis on page 35.
(17) The Corporation has loans and investments outstanding of £27.5 million in connection with this hotel. (See discussion in Management's Discussion and Analysis on page 36.)

Four Seasons currently has 18 hotels and resorts under construction or development. The following table sets forth certain information relating to these properties:

Hotel and Location (1)	Approximate Number of Rooms	Scheduled Opening	Proposed Freehold Equity Interest
Four Seasons Hotel Amman, *Jordan*	197	2001	5%
Four Seasons Resort Bodrum, *Turkey*	140	2000	(2)
Four Seasons Hotel Budapest, *Hungary*	155	2001	— (3)
Four Seasons Hotel First Residence Cairo, *Egypt*	273	1999	— (2)
Four Seasons Hotel Nile Plaza Cairo, *Egypt*	374	2002	9% (2)
Four Seasons Hotel Canary Wharf, London, *England*	142	1999	— (4)
Four Seasons Hotel Caracas, *Venezuela*	225	2000	— (5)
Four Seasons Hotel Doha, *Qatar*	225	2000	— (2)(6)
Four Seasons Hotel Dublin, *Ireland*	259	2000	— (7)
Four Seasons Hotel Miami, *Florida, USA*	297	2002	— (2)(8)
Four Seasons Hotel, George V Paris, *France*	245	1999	— (9)
Four Seasons Hotel Prague, *Czech Republic*	160	2001	66.7% (10)
Four Seasons Resort Punta Mita, *Mexico*	100	1999	31% (2)(11)
Four Seasons Hotel Riyadh, *Saudi Arabia*	242	2001	— (2)
Four Seasons Hotel San Francisco, *California, USA*	277	2000	— (2)(12)
Four Seasons Resort Scottsdale, *Arizona, USA*	210	1999	65.8% (2)(13)
Four Seasons Hotel Shanghai, *People's Republic of China*	435	2000	18% (14)
Four Seasons Resort Sharm el Sheikh, *Egypt*	141	2000	—

(1) Information concerning hotels under construction or under development is based upon agreements and letters of intent and may be subject to change. The dates of opening and proposed equity interests have been estimated by management. There can be no assurance that the date of opening will be achieved, that estimated equity interests or advances will not change or that these projects will be completed.

(2) This project includes a vacation ownership or a residential component from which the Corporation will receive fees from the management of sales and marketing and from the provision of ongoing services.

(3) The Corporation has agreed to make an investment and or loan of up to US$10 million subject to certain terms and conditions being satisfied.

(4) Four Seasons has agreed to make a loan of £3 million. This loan will be converted to equity upon certain terms and conditions being satisfied.

(5) Four Seasons has agreed to make a loan of up to US$5.0 million in connection with the completion of this hotel and to issue a cash flow guarantee secured by a US$6.0 million letter of credit to the first mortgage lender to secure at least US$2.0 million annual income available for debt service in the first 10 years of operation.

(6) The Corporation has agreed to make an operating deficit loan of up to US$4 million.

(7) The Corporation has issued a IR£3 million guarantee to fund construction overruns after a 10% contingency. The guarantee may only be called after the opening of the hotel.

(8) The Corporation may, if requested by the owner, make an investment loan of up to US$4 million.

(9) The Corporation has made a loan of French francs 161.6 million to an affiliate of Kingdom in connection with the acquisition of the long-term management agreement for this hotel. The Corporation commenced supervisory management and oversight of a major refurnishing program for the hotel in 1998.

(10) Although the Corporation has advanced funds equivalent to a 66.7% interest, it is anticipated that the Corporation will reduce the interest through a sale to an equity partner.

(11) Although the Corporation has advanced funds equivalent to a 31% equity interest in the hotel, the Corporation is endeavouring to reduce this equity interest to less than 20%.

(12) The Corporation has agreed to make a contribution of US$8.6 million.

(13) The Corporation will initially have a 4.65% equity and a 65.8% voting interest. The equity interest will increase as additional capital contributions are made, and as a result is anticipated to be up to 65.8%. The Corporation is actively marketing this investment for sale.

(14) The equity interest may vary, but will be based on an investment of approximately US$13 million. The Corporation is currently seeking equity partners to share in this investment.

Hotel Management Operations

Management Agreements

Four Seasons generally supervises all of its hotels pursuant to separate management agreements or, in the case of three hotels lease agreements, with third-party hotel owners. Under its management agreements, Four Seasons generally oversees all aspects of the day-to-day operations of each hotel on behalf of the hotel owner, including hiring, training and supervising staff, maintaining sales and marketing efforts, providing hotel accounting, purchasing and budgeting functions, providing support for management information systems and applications and providing for the safekeeping, repair and maintenance of the physical assets. Four Seasons performs these services within the guidelines contained in annual operating and capital plans that are submitted to the owners of the hotels during the last quarter of the preceding year for their review and approval. For these services, Four Seasons generally earns a number of fees including a base fee equal to a percentage of hotel gross operating revenue, and incentive fees based on certain operating results of the hotel.

Four Seasons provides centralized reservations services, worldwide sales offices, marketing programs and advertising services to the Four Seasons hotels under its management and supplementary sales support to the Regent hotels which it manages. All other marketing and reservation services for Regent are provided by Carlson.[9]

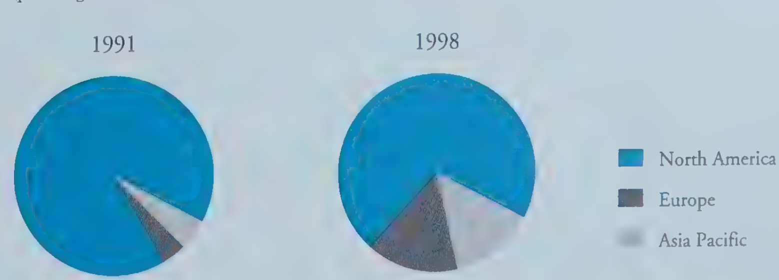
Four Seasons also provides a centralized purchasing system for goods to maintain uniform quality and to control hotel operating costs at all the Four Seasons hotels and certain Regent hotels. In return for this service, Four Seasons receives a fee calculated as a percentage of the cost of goods purchased.

Although the owners generally are responsible for financing and managing the development of hotels, Four Seasons typically plays a significant pre-opening role. Four Seasons provides advice with respect to the design and construction specifications of hotels during the development stage to ensure that they meet Four Seasons' standards. Four Seasons earns a variety of fees for these pre-opening services. Four Seasons may also assist owners in connection with the refurbishment of hotels in return for which it earns a refurbishing fee.

Under the Corporation's management agreements, the hotel owner is responsible for the funding of the hotel's capital expenditures and working capital requirements, including the salaries and benefits of all hotel employees. The hotel owner typically is required to set aside a percentage of hotel revenue as a capital reserve for the hotel. Such percentages typically range from 3% to 5% of hotel gross operating revenues. Four Seasons proposes an operating plan and capital expenditure budget to the hotel owner for approval on an annual basis. All structural changes, major refurbishing programs and major repairs require the separate approval of hotel owners prior to implementation by Four Seasons.

Total fee revenues are geographically diversified around the world, with only North America as a geographic segment contributing in excess of 40% of all fee revenues in 1998 (70% in 1998 as compared to 69% in 1997). The diversification of fee revenues has increased significantly over the past seven years. With the opening of hotels and resorts under construction and development, the Corporation expects greater diversification of fee revenues over the next five years.

Global Distribution of Management Fee Revenues
(percentage)



9 See "Regent Joint Venture" on page 18.

Vacation Ownership

The Corporation is responsible for the sales and marketing of the vacation ownership units under the Four Seasons brand. For this service it is entitled to receive a fee based on a percentage of the gross selling price of the units. The Corporation is also entitled to receive a fee calculated as a percentage of the gross selling price of the units for use of the Four Seasons brand name. In addition, the Corporation will receive an ongoing management fee from the unit owners for the management of the day-to-day operations of the completed projects.

Sales and Marketing

Four Seasons is responsible for the development of overall sales and marketing strategies for the portfolio of Four Seasons managed hotels, which include building international awareness for the Four Seasons brand and developing local market potential for specific hotels. Four Seasons' marketing efforts are coordinated through its headquarters in Toronto and are targeted at the luxury segment of the market worldwide. Four Seasons' customer mix consists principally of business travellers, groups (including corporate and incentive), and leisure travellers. These customer segments accounted for an estimated 41%, 28% and 31%, respectively, of total room nights in 1998. The corporate marketing staff also oversees the planning and implementation of hotel marketing programs and organizes the training and development programs for the global sales force and the local sales and marketing staff.

Four Seasons has a global sales force of over 80 people in 13 integrated sales offices in Atlanta, Chicago, Dallas, Frankfurt, Hong Kong, London, Los Angeles, New York, Singapore, Sydney, Tokyo, Toronto and Washington, D.C. Key objectives of the sales force are to attract groups and corporate business travellers for the hotels and resorts, as well as to establish personal contacts with nationally recognized travel agencies. In addition, a total of over 275 salespeople are employed locally at hotels under management. The local marketing strategy concentrates on developing rooms and food and beverage business for hotels locally and regionally, and promoting the hotel as a centre of community activity with a view to increasing local revenues.

Four Seasons also provides an international corporate advertising program that develops and places advertising for the Four Seasons hotels and oversees each hotel's promotional programs. The Corporation's advertisements are designed to enhance consumer awareness of Four Seasons' luxury service and the value that such services provide to the business and leisure traveller. A similar brand advertising program highlighting specific properties is coordinated among the individual Regent hotels by Carlson.

The Corporation staffs one reservation centre for Four Seasons branded hotels and resorts. The Corporation's global reservation service system provides reservation services in the local language in major North American, Asian and European cities, in a total of 26 markets worldwide. Electronic reservations are another key part of Four Seasons' global distribution network, as Four Seasons reservation systems are fully integrated with international airline booking systems. This enhances service to travel agents around the world by giving them access to electronically updated hotel inventory and room rates. The Regent reservation system is operated by Carlson on behalf of all Regent hotels and provides a level of service intended to be comparable to the Four Seasons system.

The Corporation receives corporate sales and marketing fees, centralized reservation service fees and corporate advertising fees from all Four Seasons hotels, thereby enabling it to recover substantially all of the costs of providing these services.

Hotel Management Resources

Each Four Seasons hotel is managed by a general manager and supported by an area vice president or by a regional vice president (who also is a general manager) and other corporate vice presidents. The size of each hotel's management team and its hourly staff varies, based on the size and business volume of the particular property. Hotel management monitors staffing levels on a daily basis to optimize labour productivity and minimize costs.

A general manager is responsible for supervising the day-to-day operations of a single hotel and is compensated in part based on the operational performance of that hotel. Four Seasons general managers report directly to one of seven regional vice presidents or directly to an area vice president. A regional marketing director, an area controller and a regional human resource director complete the regional support team. The majority of these individuals are full-time employees of a Four Seasons hotel, with a portion of their time being devoted to regional activities. The Corporation believes its regional management structure is a key component in Four Seasons' ability to deliver and maintain the highest and most consistent standards of product quality and service at each of its hotels in a cost effective manner, especially as it expands globally.

From the corporate level, the Corporation provides each hotel with the benefits of management services that are delivered by a network of experienced executives, corporate personnel and area managers. The Corporation also provides or arranges assistance and training to each hotel's employees for administration, operations, rooms and guest service, reservations, maintenance and engineering, human resources and benefits. Other services provided by the Corporation include advice and assistance with accounting, tax, legal, risk management, treasury, information technology, internal audit and credit services.

Employees

Four Seasons directly employs and is responsible for approximately 275 people at the worldwide sales offices, the central reservations offices and the corporate offices. In addition, there are approximately 23,000 employees located at the 43 hotels and resorts managed by Four Seasons. All costs relating to hotel employees, including wages, salaries and health and insurance benefits, are the responsibility of the hotel owners and are generally paid out of the operating cash flow of the hotels. Hotel management and corporate staff share responsibility for the selection and training of hotel employees and for ensuring, through progressive career development, an adequate supply of mobile, qualified and experienced staff to match the growth of the Corporation's operations internationally. Maintenance of employee communication, motivation and morale at high levels is necessary to meet the expectations of Four Seasons' clientele. A significant effort has been devoted to developing customized hiring practices, training and career development programs and approaches in this context.

Of the 43 hotels and resorts under management, 17 are covered by collective bargaining agreements.

Hotel Ownership Operations

Four Seasons holds an ownership interest in, or has loans in respect of or to, 11 of the 43 hotels and resorts currently under management. Four Seasons' most significant ownership interests are: 100% leasehold interest in the Four Seasons Hotel Vancouver, The Pierre in New York, and the Four Seasons Hotel Berlin,[10] and a 25% leasehold interest in The Regent Hong Kong. The Corporation also holds secured cash flow loans in connection with the transactions involving the Four Seasons Hotel London[11] and has a loan outstanding in connection with the Hôtel George V in Paris.[12] During the year, the Corporation also made loans to The Regent Sydney[12] and the Four Seasons Resort Scottsdale.

10 See discussion under "Four Seasons Hotel Berlin" on page 35.

11 See discussion under "Four Seasons Hotel London" on page 36.

12 See Note 4 to the consolidated financial statements.

Although Four Seasons will continue to make loans or minority investments to secure long-term management contracts, these investments will be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment and risk profile.

Four Seasons works closely with the owners and investors in developing new properties and acquiring existing luxury properties to be managed by Four Seasons. To the extent required, Four Seasons will make loans or minority investments to secure long-term management contracts, but these investments will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment and risk profile. However, Four Seasons generally limits its total capital exposure to no more than 20% of the total equity required for the new property and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation attempts to structure its ownership interests separately from its management interests so as to enable it to dispose of an ownership interest as sale opportunities arise, without affecting its management interests.

INTELLECTUAL PROPERTY

In the highly competitive service industry in which Four Seasons operates, trade names and trademarks are very important in the sales and marketing of those services. Four Seasons has a significant number of trade names, trademarks and service marks, and significant time and effort are spent each year on surveillance, registration and protection of trade names, trademarks and service marks, which Four Seasons believes have become synonymous in the lodging industry with a standard of attention to detail and an unwavering dedication to excellence.

Four Seasons and Carlson have entered into an arrangement pursuant to which Carlson has acquired rights to the Regent name for new development. Carlson now owns and has exclusive right to use the Regent name and related trademarks, service marks and logos and has granted Four Seasons the right to use the Regent name and related marks and logos at Regent properties managed by Four Seasons.[13] The costs associated with the maintenance of the Regent brand and marks are the obligation of Carlson.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Two-Year Summary by Quarter

(In millions of dollars except per share amounts)	4th Quarter 1998[(1)]	4th Quarter 1997	3rd Quarter 1998[(1)]	3rd Quarter 1997	2nd Quarter 1998[(1)]	2nd Quarter 1997	1st Quarter 1998[(1)]	1st Quarter 1997
Consolidated revenues	**$ 75.9**	$ 71.9	**$ 59.2**	$ 57.3	**$ 63.0**	$ 61.6	**$ 50.7**	$ 49.6
Earnings (loss) before other operating items:								
Hotel management	**23.5**	18.5	**20.3**	16.0	**19.2**	14.8	**16.9**	14.3
Hotel ownership	**8.3**	7.8	**1.0**	2.7	**4.4**	5.7	**(4.3)**	(0.8)
Net earnings:								
Total	**$ 27.4**[(2)]	$ 20.3	**$ 16.7**[(3)]	$ 1.1[(4)]	**$ 17.9**	$ 13.6	**$ 7.7**	$ 5.8
Basic earnings per share	**$ 0.81**[(2)]	$ 0.61	**$ 0.49**[(3)]	$ 0.03[(4)]	**$ 0.53**	$ 0.41	**$ 0.23**	$ 0.19

(1) Excludes the 25% proportionately consolidated results of The Ritz-Carlton Hotel Chicago which was disposed of effective January 1, 1998.

(2) The fourth quarter 1998 amounts include a foreign exchange gain of $7.8 million and a provision for loss of $6.9 million (total of $0.02 per share). Excluding these items, normalized net earnings would have been $26.5 million and normalized basic earnings per share would have been $0.79 for the fourth quarter 1998.

(3) The third quarter 1998 amounts included a foreign exchange gain of $6.2 million, a provision for loss of $5.8 million and a loss on repurchase of debt of $0.4 million. These items did not have a significant effect on net earnings or basic earnings per share for the third quarter 1998.

(4) The third quarter 1997 amounts include the effect of an accounting loss of $12.0 million ($0.37 per share) relating to the Corporation's repurchase of US$101.5 million of its 9 1/8% Notes. Excluding this loss, normalized net earnings would have been $13.1 million and normalized basic earnings per share would have been $0.40 for the third quarter 1997.

13 See "Regent Joint Venture" on page 18.

Five-Year Review

(In millions of dollars except per share amounts)	1998	1997	1996	1995	1994
Statements of Operations Data:					
Consolidated revenues[1]	$ 248.8	$ 240.4	$ 121.0	$ 135.8	$ 129.0
Hotel Management Operations					
Revenues	$ 126.9	$ 106.0	$ 94.7	$ 88.5	$ 79.9
Hotel management earnings before other operating items	79.9	63.7	55.7	51.8	45.9
Hotel Ownership Operations					
Revenues	126.1	135.3	17.6	42.5	43.1
Distribution from hotel investments	2.7	6.4	9.4	6.2	7.3
Hotel ownership earnings before other operating items	9.3	15.4	8.9	15.1	14.6
Earnings before other operating items	89.2	79.1	64.6	66.9	60.5
Foreign exchange gain[2]	14.0	—	—	—	—
Depreciation and amortization	(15.2)	(15.8)	(14.0)	(16.9)	(16.9)
Provision for loss[3]	(12.7)	—	—	(95.0)	—
Loss on repurchase of debt[4]	(0.4)	(12.0)	—	—	—
Earnings (loss) from operations[5]	74.9	51.3	50.6	(45.0)	43.6
Interest expense, net	(3.8)	(8.9)	(18.8)	(25.7)	(27.2)
Earnings (loss) before taxes[6]	71.1	42.4	31.8	(70.7)	9.6
Income tax expense	(1.4)	(1.6)	(2.0)	(3.9)	(2.8)
Net earnings (loss)	$ 69.7	$ 40.8	$ 29.8	$ (74.6)	$ 6.8
Earnings (loss) per share:					
Basic	$ 2.06	$ 1.24	$ 1.04	$ (2.62)	$ 0.24
Weighted average number of shares (millions)[7]	33.8	32.8	28.7	28.4	27.9
Changes in Financial Position:					
Cash provided by operations	$ 75.0	$ 64.8	$ 43.7	$ 38.7	$ 44.8
Long-term receivables	(66.3)	(35.9)	0.4	(32.9)	(10.4)
Disposal of long-term receivables	—	—	—	13.2	—
Investments	(41.7)	(17.7)	(21.1)	(14.6)	(11.8)
Disposal of hotel investments, net	12.8	13.0	4.3	65.7	51.7
Capital expenditures	(13.9)	(10.5)	(1.3)	(2.4)	(1.6)
Dividends	(3.5)	(3.2)	(3.0)	(3.1)	(3.1)
Balance Sheet Data:					
Total assets	$ 545.1	$ 453.2	$ 385.3	$ 381.6	$ 491.5
Total debt	165.0	140.2	240.0	267.6	308.6
Shareholders' equity	330.4	254.5	88.1	57.2	137.2

FIVE-YEAR REVIEW *(continued)*

(In millions of dollars except per share amounts)	**1998**	1997	1996	1995	1994
Other Data:					
Total revenues of all managed hotels[8]	**$ 2,270.7**	$ 2,119.4	$ 1,901.5	$ 1,837.9	$ 1,698.2
Hotel management revenues as a % of consolidated revenues	**51.0%**	44.1%	78.3%	65.2%	61.9%
Percentage of hotel management revenues derived outside North America	**29.5%**	31.2%	38.3%	40.9%	38.8%
Hotel management operating margin[9]	**62.9%**	60.1%	58.8%	58.5%	57.4%
Hotel management earnings before other operating items as a % of earnings before other operating items	**89.5%**	80.5%	86.2%	77.4%	75.8%
EBITDA[10]	**$ 89.2**	$ 79.1	$ 64.6	$ 66.9	$ 60.5
Debt, net of cash	**$ 147.4**	$ 114.9	$ 224.6	$ 230.9	$ 299.2
Market price per share at year-end	**$ 45.00**	$ 45.00	$ 27.75	$ 19.00	$ 16.25
Shares outstanding (millions)[7]	**33.9**	33.7	28.7	28.5	28.4
Market capitalization at year-end	**$ 1,526.0**	$ 1,517.4	$ 797.2	$ 541.3	$ 461.9
Employees[11]	**23,000**	22,000	21,000	21,500	21,500

(1) Consolidated revenues are comprised of revenues from hotel management operations, revenues from hotel ownership operations and distributions from hotel investments, less fees from hotel ownership operations to hotel management operations.

(2) The foreign exchange gain in 1998 resulted from the repatriation of funds by the Corporation from its principal Asian subsidiary and from the translation of foreign denominated (primarily pound sterling) long-term receivables.

(3) Provision for loss on certain hotel investments, management contracts, long-term receivables and related assets were made in 1998 and 1995 in order to write those assets down to their estimated net recoverable values and to provide for likely losses on debt guarantees and lease commitments relating to certain of the hotel investments.

(4) The loss on repurchase of debt in 1998 and 1997 relates to the Corporation's repurchase of US$6.0 million in 1998 and US$101.5 million in 1997 of its 9 1/8% Notes.

(5) Earnings (loss) from operations represents earnings before other operating items plus (i) foreign exchange gain less (ii) depreciation and amortization less (iii) provision for loss less (iv) loss on repurchase of debt.

(6) Earnings (loss) before taxes represents earnings (loss) from operations plus (i) interest income less (ii) interest expense less (iii) costs of $6.8 million associated with the sale of shares in 1994.

(7) Weighted average number of shares and shares outstanding are comprised of Limited Voting Shares and Variable Multiple Voting Shares.

(8) Total revenues of all managed hotels consist of rooms, food and beverage, telephone and other revenues of all the hotels which the Corporation manages.

(9) Hotel management operating margin is equal to hotel management earnings before other operating items divided by hotel management revenues.

(10) EBITDA is equal to net earnings (loss) plus (i) income tax expense plus (ii) costs associated with sale of shares plus (iii) interest expense less (iv) interest income plus (v) loss on repurchase of debt plus (vi) provision for loss plus (vii) depreciation and amortization less (viii) foreign exchange gain. EBITDA is equivalent to earnings before other operating items. EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles, and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by generally accepted accounting principles. EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring the ability to service debt.

(11) The majority of the employees are directly employed by the hotels. Typically, less than 300 employees are directly employed by the Corporation.

A Summary Hotel Operating Data

The following table sets forth certain summary hotel operating data for hotels and resorts under Four Seasons management in the years shown.

(unaudited)	**1998**	1997	1996	1995	1994
All Managed Hotels:					
Worldwide					
No. of properties	**42**[1]	39	37	38	38
No. of rooms	**12,782**[1]	12,205	11,628	12,663	12,850
North America					
No. of properties	**24**[1]	24	22	22	23
No. of rooms	**7,574**[1]	7,414	6,837	7,152	7,481
Asia/Pacific					
No. of properties	**13**	11	11	14	12
No. of rooms	**4,344**	4,197	4,197	5,186	4,735
Europe					
No. of properties	**5**	4	4	2	3
No. of rooms	**864**	594	594	325	634
Stabilized Hotels:[2]					
Worldwide					
No. of properties	**38**	36	33	36	36
No. of rooms	**12,155**	11,424	10,725	12,212	12,286
Occupancy[3]	**70.4%**	73.7%	74.9%	71.7%	70.9%
ADR[4]	**$ 375.14**	$ 339.45	$ 316.27	$ 278.79	$ 255.83
REVPAR[5]	**$ 264.26**	$ 250.34	$ 236.75	$ 199.94	$ 181.43
Gross operating margin[6]	**34.5%**	33.7%	32.6%	28.9%	26.4%
North America					
No. of properties	**24**	22	21	22	22
No. of rooms	**7,568**	6,837	6,587	7,152	7,174
Occupancy[3]	**73.9%**	75.2%	75.3%	70.9%	69.7%
ADR[4]	**$ 424.52**	$ 369.37	$ 329.22	$ 293.63	$ 271.09
REVPAR[5]	**$ 313.81**	$ 277.70	$ 247.96	$ 208.07	$ 189.03
Gross operating margin[6]	**34.9%**	33.2%	31.3%	27.9%	24.5%
Asia/Pacific					
No. of properties	**11**	11	10	12	11
No. of rooms	**4,197**	4,197	3,813	4,735	4,478
Occupancy[3]	**63.3%**	70.8%	73.5%	72.5%	73.1%
ADR[4]	**$ 232.30**	$ 257.54	$ 267.46	$ 238.71	$ 214.63
REVPAR[5]	**$ 147.04**	$ 182.32	$ 196.45	$ 173.15	$ 156.87
Gross operating margin[6]	**31.2%**	33.3%	33.8%	29.2%	28.4%
Europe					
No. of properties	**3**	2	2	2	3
No. of rooms	**390**	390	325	325	634
Occupancy[3]	**78.5%**	79.2%	81.4%	78.9%	69.2%
ADR[4]	**$ 689.11**	$ 597.68	$ 569.60	$ 515.11	$ 382.99
REVPAR[5]	**$ 541.03**	$ 473.22	$ 463.71	$ 406.64	$ 265.04
Gross operating margin[6]	**42.4%**	41.3%	41.7%	39.6%	31.8%

(1) Since December 31, 1998, the Corporation has commenced management of the Four Seasons Hotel Las Vegas which has 425 rooms.

(2) The term "Stabilized Hotels" means hotels and resorts that were fully open under Four Seasons management throughout a particular year and during the last quarter of the prior year. Stabilized Hotels data is used when information for more than two years is provided.

(3) Occupancy percentage is defined as the total number of rooms occupied divided by the total number of rooms available.

(4) ADR is defined as average daily room rate per room occupied.

(5) REVPAR is defined as average room revenue per available room. REVPAR is a commonly used indicator of market performance for hotels and represents the combination of the average daily room rate and the average occupancy rate achieved during the period. REVPAR does not include food and beverage or other ancillary revenues generated by a hotel.

(6) Gross operating margin represents gross operating profit as a percent of gross operating revenue.

Management's Discussion and Analysis

Financial Objectives

The key financial objectives of the Corporation over the next few years can be summarized as follows:

- Achieve earnings per share growth of 20% per annum over the long term.
- Achieve a return on capital deployed of at least 10% over the Corporation's long-term cost of capital.
- Achieve 90% of the Corporation's earnings from its hotel management business, which includes management of vacation ownership developments and the management and royalty fees relating to the Regent brand.
- Make available 70% or more of the Corporation's annual operating cash flow for investments in new projects that provide long-term opportunities for growth in management or royalty fees.
- Maintain an investment grade balance sheet and a low cost of capital to facilitate future financing of the Corporation's growth initiatives.
- Focus on ongoing improvements in operating profit margins at both the hotel and corporate level to maximize returns on capital without additional investment.
- Maintain tax efficiency as the Corporation transitions to a taxable position in the year 2000.

Growth Objectives

The key growth objectives of the Corporation over the next few years can be summarized as follows:

- Achieve growth of the Four Seasons brand through the addition of new hotels and resorts under management, additional vacation ownership opportunities, and selected luxury residential projects.
- Identify and pursue opportunities to utilize the Corporation's free cash flow to acquire the management of existing unbranded hotels, or groups of hotels, to enhance long-term earnings growth and shareholder value.
- Maintain and enhance Four Seasons REVPAR growth rates, to maximize the internal growth potential of the Corporation.
- Identify and pursue opportunities that allow the Corporation to maintain its high profit margins in, and cash flow from, its hotel management operations and earn appropriate returns on invested capital.
- Identify and coordinate with Carlson, opportunities to franchise and manage hotels under the Regent brand.
- Consider other opportunities for growth that represent a consistent and productive extension of the Four Seasons and Regent brands.

Risk Management Objectives

The key risk management objectives of the Corporation over the next few years can be summarized as follows:

- Identify and diversify the number of equity and debt sources available to the Corporation, to permit the Corporation to continue its growth without overextending its capital needs.
- Ensure that the risks and benefits of new investments are consistent with the Corporation's key financial objectives, through the careful consideration and review by the Corporation's Management Committee.
- Mitigate business cycle risks through both geographic diversity and the business mix of (i) hotel management agreements, (ii) vacation ownership management and royalty agreements, (iii) franchising and management revenue relating to the Regent brand, and (iv) hotel and vacation ownership investments.
- Utilize appropriate currency hedging activities to minimize the risks associated with foreign currency exposures.

- Minimize the Corporation's investments in areas of high risk and obtain premium returns on invested capital in certain regions to offset political or emerging market risks.
- Minimize the uncertainty of tenure of the Corporation's management agreements by negotiating long-term agreements and non-disturbance arrangements (which help to protect the Corporation's management rights in the event of a sale of a hotel or any potential debt foreclosures).
- Ensure ongoing risk assessment of the Corporation's insurance programs to ensure that coverages are appropriate.
- Ensure appropriate steps are taken for the remediation, testing, and contingency planning for compliance with the year 2000 computer system issues.

Overview of 1998

The Corporation achieved a number of important strategic and financial objectives over the past 12 months, including the following:

- **Earnings growth:** Normalized net earnings increased 30.4% to $68.8 million ($2.04 earnings per share), as compared to normalized net earnings of $52.8 million in 1997 ($1.61 earnings per share). This increase is attributable primarily to improvements in the hotel management business, and lower overall interest costs. Normalized earnings per share have increased by 38% per annum between 1992 and 1998.
- **Internal growth:** REVPAR for Core Hotels in North America and Europe increased approximately 8% and 7%, respectively. Management fee revenues from hotels in North America and Europe represented approximately 84% of total fee revenue in 1998 (74% in 1997).
- **Profit margin improvements:** The profit margin on hotel management operations improved for the eighth consecutive year, increasing to 63% in 1998 from 60% in 1997.
- **Business mix:** The Corporation's strategy of divesting its hotel ownership positions over the last few years, in favour of deriving most of its earnings from hotel management, resulted in hotel management operations contributing 90% of total earnings before other operating items, as compared to 81% in 1997.
- **Unit growth:** The Corporation acquired the management agreement for the Four Seasons Resort in Kuda Huraa, Maldives, and two hotels for which management agreements were acquired in 1997 (the Four Seasons Hotel, The Ritz Lisbon and the Four Seasons Hotel Atlanta) were successfully repositioned during 1998. Also during the year, the Four Seasons Resort Bali at Sayan opened. In addition, the Four Seasons Hotel Washington added 60 rooms and The Regent Beverly Wilshire added 120 rooms due to building expansions completed in 1998.
- **Majority of earnings growth from new or enhanced management agreements:** Approximately 86% of the Corporation's management fee revenue growth in 1998 was from new hotels (opened or under development) and enhanced management agreements at existing hotels.
- **Majority of capital spending related to new or enhanced management contracts:** In 1998, approximately 82% or $98.8 million (1997 – 71% or $43.8 million) of total capital spending was for new growth opportunities. Most of these investments have projected internal rates of return in excess of the Corporation's hurdle rate of 20% and well in excess of its cost of capital. The balance of capital spending (1998 – $21 million, 1997 – $17.6 million) was for dividends and capital expenditures on existing assets.

- **Investment Grade debt ratings:** The Corporation's long-term debt to total capitalization improved from 35.5% as at December 31, 1997 to 33.3% as at December 31, 1998. The Corporation's operating earnings coverage of net interest costs improved from 8.9 times in 1997 to 23.5 times in 1998. These improvements, plus other factors, resulted in the Corporation's debt attaining investment grade status from Moody's, Standard & Poor's, Dominion Bond Rating Service and Canadian Bond Rating Service during 1998.
- **Further reductions in real estate exposure:** The Corporation continued to manage its real estate ownership risk profile by disposing of its interests in The Ritz-Carlton Hotel Chicago and the Four Seasons Hotel Chicago in 1998. In a separate transaction, the Corporation's management agreement at The Ritz-Carlton Hotel Chicago was enhanced, resulting in an increase in the management fees from that hotel.
- **Capital deployed to improve management terms:** The Corporation deployed its 1997 year-end cash reserves by providing financing for the acquisition of the Four Seasons Hotel London in the first quarter of 1998. The Corporation also significantly improved the management agreement terms in connection with this hotel.
- **Year 2000 program:** The Corporation continued its multi-phased plan at its corporate office and managed hotels for assessment, remediation testing and contingency phases to ensure that all critical systems will be year 2000 compliant.

OPERATIONAL AND FINANCIAL REVIEW AND ANALYSIS

Four Seasons has two operating segments: hotel management operations and hotel ownership operations. It is Four Seasons' objective to maximize its operating earnings from the hotel management operations segment, and generally to make investments in hotel ownership only where required to secure additional management opportunities or to improve the management fee arrangements for existing hotels. Revenues from hotel management operations and hotel ownership operations as a percentage of total combined consolidated revenues are set forth in the following table. The table also includes earnings before other operating items, interest and taxes ("EBITDA") from hotel management operations and hotel ownership operations, as a percentage of total EBITDA. The significant increase in the percentage of consolidated revenues and EBITDA from hotel ownership operations in 1997 from 1996, is due to the consolidation of the operating results of The Pierre in New York and the Four Seasons Hotel Vancouver beginning in 1997. Largely as a result of the disposition of the Corporation's interest in The Ritz-Carlton Hotel Chicago at the beginning of 1998, these percentages decreased significantly in 1998, in line with the Corporation's overall objective of reducing its total exposure to hotel ownership.

	1998	1997	1996	1995	1994
As a percent of consolidated revenues:					
Revenues from hotel management	**51.0%**	44.1%	78.3%	65.2%	61.9%
Revenues from hotel ownership	**50.7**	56.3	14.6	31.2	33.4
Distributions from hotel investments	**1.1**	2.6	7.8	4.6	5.7
Fees from hotel ownership to hotel management	**(2.8)**	(3.0)	(0.7)	(1.0)	(1.0)
	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA:(1)					
Hotel management operations	**89.5%**	80.5%	86.2%	77.4%	75.8%
Hotel ownership operations	**10.5**	19.5	13.8	22.6	24.2
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Earnings before other operating items, interest and taxes.

Hotel Management Operations

Four Seasons is principally a hotel management company, with 1998 hotel management earnings representing almost 90% of total earnings before other operating items, interest and taxes. Under its management agreements, Four Seasons generally oversees all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons receives a variety of fees, including a base fee calculated as a percentage of gross operating revenues of each hotel. In addition, Four Seasons often receives an incentive fee based on the operating performance of each hotel.

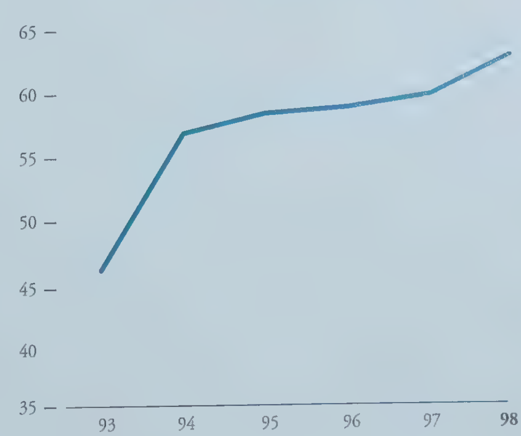
Through economies of scale, coordinated international marketing efforts, detailed labour management controls and food and beverage purchasing systems, Four Seasons generally has enhanced the overall profitability of hotels under its management. As a result of various management tools and cost control techniques, the gross operating profit margin of the Core Hotels has improved from 17.1% in 1992 to 34.5% in 1998 (calculated as a percentage of hotel gross operating revenues). These hotel profitability improvements have, in turn, increased the incentive fees earned by the Corporation.

In addition to overseeing day-to-day operations of its hotels, Four Seasons provides management services, including developing and implementing sales and marketing strategies, operating a central reservations system, assisting with sourcing the financing of and managing the development of new hotels, providing advice with respect to the design and construction of new or renovated hotels, assisting with the refurbishment of hotels, and providing a centralized purchasing system for hotel goods.

General and administrative expenses for hotel management operations are incurred by the Corporation to provide the management services outlined in the previous paragraph, together with and including those items normally associated with corporate overhead, such as operations, finance, information technology, accounting, control, planning, legal, development and other costs of maintaining the corporate office.

The Corporation's general and administrative expenses are relatively stable. As a result, the Corporation derives substantial operating profit leverage from increases in management fees from existing agreements and the addition of new management controls. From 1993 to 1998, hotel management fee revenues and hotel management earnings before other operating items have grown at compounded annual growth rates of 16.1% and 23.4%, respectively. Hotel management earnings before other operating items as a percentage of fee revenues (hotel management profit margin) increased from 46.3% to 62.9% between 1993 and 1998. Hotel management fees and earnings are expected to increase in 1999 and beyond as a result of (i) the addition of fee revenue from hotels added to the portfolio in 1999, (ii) anticipated REVPAR and profitability improvements in hotels under management, (iii) a full year of management fee revenues from the properties acquired or opened in 1998, (iv) increased fees from additional vacation ownership projects, (v) improved foreign currency exchange rates, and (vi) royalty fees from new Regent branded hotels.

Hotel Management Profit Margin
(percent)



Hotel Ownership Operations

Hotel ownership earnings include the consolidated results of The Pierre in New York (100%) and the Four Seasons Hotel Vancouver (100%), and, in 1997, also included The Ritz-Carlton Hotel Chicago (25%). In addition, the Corporation recognizes as revenue dividend distributions in respect of its 25% interest in The Regent Hong Kong and the profit distribution from its other minority interests.

In 1998, the Corporation also began accruing for the start-up losses of the Four Seasons Hotel Berlin. Under settlement discussions now underway, an amended lease agreement is expected to become effective January 1, 1999 (see discussion under Four Seasons Hotel Berlin below). The Corporation also disposed of its 25% interest in The Ritz-Carlton Hotel Chicago in exchange for the elimination of certain management agreement termination provisions. In a separate transaction the management terms of this agreement were also enhanced.

Leasehold Interests

The Corporation has been in discussions with the landlords of the Four Seasons Hotel Vancouver and The Pierre in New York since late 1994 to revise their respective lease structures to allocate major capital expenditure requirements, and in the case of Vancouver, property taxes, more equitably between the parties. To preserve its economic interest in the Vancouver leasehold, the Corporation gave notice to the landlord that it intends to renew the lease for the Four Seasons Hotel Vancouver for a further 20-year period beginning in 2000. Discussions with the landlord relating to the realty taxes are continuing. The extended lease terms are generally consistent with the existing lease, which provides for a maximum lease payment of approximately $2.2 million annually.

In addition, discussions with the landlord of The Pierre in New York are continuing. If these discussions do not result in an arrangement satisfactory to Four Seasons, the lease for The Pierre, which expires in January 2002, may not be renewed. If the lease is not renewed, the Corporation's management of The Pierre would likely cease. If this occurred it is the Corporation's intention to seek another hotel management opportunity in New York. Because the Corporation has not decided whether to renew this lease, note 14(a) to the consolidated financial statements, which summarizes the Corporation's lease commitments, reflects only the minimum lease payments for The Pierre for the remainder of the initial lease term plus one 10-year renewal term. There is no third party debt associated with the Corporation's leasehold interest relating to either The Pierre or the Four Seasons Hotel Vancouver, other than related rent obligations.

Four Seasons Hotel Berlin

The Corporation has a 26% investment in the company that owns and has constructed the multi-use project in Berlin, as well as a 26% interest in the company that owns the freehold interest in the hotel. In addition, in 1991 Four Seasons entered into an operating lease to acquire the management of the Four Seasons Hotel Berlin. In addition to the lease, the Corporation had a capital exposure to the project of DM7 million, in the form of a bank loan guarantee, which was accrued by the Corporation in 1995 and fully funded during 1998. The hotel opened in September 1996; however, the effective date of the commencement of the lease was postponed, as a result of a dispute with the owner arising from certain construction deficiencies alleged by the Corporation.

In early 1999, the Corporation and the owner began discussions to settle the dispute arising from the construction deficiencies. As a result, the lease for the hotel is expected to commence effective January 1, 1999. As part of the settlement the construction deficiencies relating to the hotel's air cooling and heating systems would be repaired and the lease agreement would be amended to limit the Corporation's obligation to fund the Four Seasons Hotel Berlin's operating and capital requirements, including the minimum rent, to a maximum amount. Although these discussions are well advanced, there can be no assurance that a settlement satisfactory to the Corporation can be reached.

The hotel's budgeted 1999 operating loss is expected to be between DM2 million and DM3 million (between $1.8 million and $2.7 million). However, the long-term outlook for the hotel is expected to be favourable once construction is completed in the vicinity of the hotel and the Berlin hotel market stabilizes to higher occupancy levels after the expected relocation of federal government and corporate offices.

Four Seasons Hotel London

The Corporation holds two loans receivable in the aggregate amount of £23.4 million (approximately $60 million), plus an investment of £4.1 million (approximately $11 million) in preferred shares, in connection with the Four Seasons Hotel London. These amounts represent two loans to, and an investment in, a Kingdom corporation resulting from two separate transactions (1995 and 1998) through which Kingdom acquired an aggregate 87.5% interest in the hotel.

The first loan, which has a balance of £11.2 million (approximately $29 million) as at December 31, 1998, represents part of the consideration received by the Corporation when it sold its 50% interest in the hotel to Kingdom in 1995. The loan is a cash flow bond secured by the transferred interest in the hotel and bears interest at 10% per annum.

The second loan, which has an outstanding balance of £12.2 million (approximately $31 million), together with the investment in preferred shares, resulted from a transaction in which the other 50% owner of the hotel sold its interest to Kingdom (37.5%) and the Corporation (12.5%) in the first quarter of 1998. This loan bears interest at 10% per annum and the preferred shares bear a cumulative annual dividend of 10%, both payable from the cash flow of the hotel. The loan is secured by the related interest in the hotel. Concurrent with this transaction, the Corporation's management arrangements for the hotel were reorganized and improved.

Other Hotel Ownership Interests

As at December 31, 1998, Four Seasons had minority investments in two hotels and resorts under management (Aviara (7.3%) and Seattle (3.4%)) and had minority investments in three of the hotels and resorts under construction (Punta Mita, Mexico (31%), Nile Plaza, Cairo (9%) and Amman, Jordan (5%)). In addition, Four Seasons had a 66.7% interest in a hotel under construction in Prague, a 4.3% equity interest in a resort and vacation ownership project under construction in Scottsdale. The interest in the Four Seasons Resort Scottsdale is expected to increase to approximately 67% as additional funds are advanced to complete construction. Both of these latter two ownership interests are expected to be reduced prior to completion of construction of the respective projects, as the Corporation is in discussions with prospective equity partners to purchase some or all of the Corporation's position. Four Seasons accounts for all of these investments on a cost basis because either the percentage ownership and structure does not give the Corporation significant influence over these investments, or the investments were made with the intention that they be disposed of in the foreseeable future. The book value of these hotel ownership interests was $53.1 million as at December 31, 1998 ($46.5 million as at December 31, 1997). Based upon the current and budgeted operating cash flow of each of these properties (adjusted for expected capital spending requirements) and recent comparable luxury hotel sales, the Corporation currently estimates that the net recoverable value from each of these investments at least approximates the book values of each of these investments (see note 5 to the consolidated financial statements).

None of these investments is material to the Corporation and each of these investments individually represents 5% or less of the total assets of the Corporation. The Corporation has no recourse debt obligations relating to these interests, other than those disclosed in note 14(c) to the consolidated financial statements. For the year ended December 31, 1998, the Corporation earned $10.1 million ($8.0 million in 1997) of fee revenues and received distributions of $702,000 ($363,000 in 1997) from these hotel investments.

In 1997, the Corporation exchanged its 15% partnership interest in the Four Seasons Hotel Washington and an adjoining office building in return for an extended management contract. At the same time, the owner commenced a program to convert the office building into 60 additional hotel rooms to be managed by Four Seasons. These rooms, many of which are premium-priced suites, were completed in late 1998, and are expected to provide additional management fee and incentive fee revenues to the Corporation.

During the first quarter of 1998, the Corporation disposed of its 7.7% interest in the Four Seasons Hotel Chicago in exchange for the elimination of certain funding obligations.

Vacation Ownership Interest

The book value of Four Seasons' ownership interest in vacation ownership was $5.3 million as at December 31, 1998 ($4.9 million at December 31, 1997). This amount includes the Corporation's 7.3% interest in the vacation ownership project located at Aviara in Carlsbad, California, as well as its investment in the vacation ownership projects under construction in Scottsdale, Arizona and Punta Mita, Mexico. Sales of vacation ownership units at the vacation ownership projects in Scottsdale and Punta Mita are expected to begin in 1999.

RESULTS OF OPERATIONS

Year ended December 31, 1998 compared to year ended December 31, 1997

Hotel Management Operations

Revenues

Fee revenues increased $20.9 million or 19.8% to $126.9 million in 1998, as compared to $106.0 million in 1997. The increase is attributable to increased fees from hotels with revised management agreements of $9.1 million, an increase in fees from recently opened hotels and new management agreements of $4.3 million, an increase in fees from hotels under development of $2.8 million, and an increase in other fees of $4.7 million. Incentive fees contributed 25.3% of the total fee revenues in 1998, as compared to 23.2% in 1997.

Total revenues of all managed hotels increased to $2.3 billion in 1998, as compared to $2.1 billion in 1997. Growth in revenue was driven by continued strong performance in both the North American and European markets, offset by a weak performance in the Asian markets. On a US dollar basis the Corporation's Core Hotels under management in North America and Europe experienced an average increase in REVPAR of 7.9% and 6.9%, respectively, and an average increase in gross operating profit of 14.3% and 8.4%, respectively, in 1998, as compared to 1997. The continuing difficult economic conditions in Asia during 1998 resulted in an average decline of 27.3% in REVPAR and 32.7% in gross operating profit in Core Hotels under management in that region. Compared to 1997, this resulted in a reduction of approximately US$4.0 million in management and incentive fee revenues from the Asian hotels. As a result, the Corporation's Core Hotels showed an average overall decrease of 0.7% in REVPAR in 1998, as compared to 1997, resulting from a decrease in occupancy of 3.2% which was only partially offset by an increase in room rates of 3.9%. In spite of the REVPAR decrease experienced in 1998, gross operating profit of the Core Hotels increased on average by 1.3% in 1998, as compared to 1997, due to enhanced operating efficiencies.

The Corporation expects REVPAR and gross operating profits in its Core Hotels to increase approximately 5% in North America and Europe, while Asia is expected to be flat in 1999, as compared to 1998. The expected increases in the North American and European hotels is expected to result primarily from increases in room rates rather than from occupancy gains.

The Corporation expects fee revenues to increase by approximately 15% in 1999 over 1998, primarily as a result of (i) fees to be earned from new unit additions, (ii) increased fees expected from the improved performance of hotels in North America and Europe, (iii) a full year of fee revenues from the resorts in Bali at Sayan and the Maldives, (iv) further improvements expected in operating revenues and profitability at hotels opened in recent years, such as Atlanta, Aviara and Lisbon which are stabilizing at higher levels of occupancy and achieved room rates, and (v) improved foreign exchange rates, all of which will be partially offset by the loss of fees from The Regent Taipei and reduced fees expected from other Asian hotels.

General and Administrative Expenses

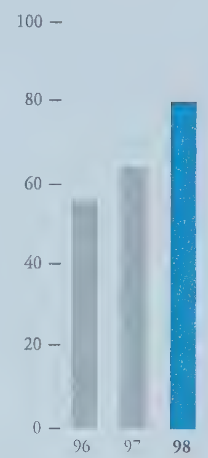
In 1998, general and administrative expenses increased by $4.7 million or 11.2%, as compared to 1997, due to increased staff levels necessary to facilitate for the Corporation's unit growth expansion over the next few years, as well as an increase in fees in the reservation, sales and marketing areas, which are on a cost recovery basis. In 1999, the increase in general and administrative expenses is expected to be over 10%, due to the full year impact of the increases in staffing incurred in 1998, and the directly proportional increase in expenses relating to the increase in fees in the reservations, sales and marketing areas.

Hotel Management Earnings

As a result of the changes in fee revenues and expenses discussed above, the Corporation's hotel management earnings increased by $16.2 million or 25.5% to $79.9 million in 1998. Hotel management earnings represented 90% of the Corporation's earnings before other operating items in 1998, as compared with 81% in 1997. The increase was due to the improvement in hotel management earnings in 1998 combined with a reduction in hotel ownership earnings in 1998, as discussed below. The Corporation expects that in 1999, 90% or more of its operating earnings will continue to be derived from its hotel management operations.

With the combination of strong management revenue growth in 1999 and a relatively modest increase in its cost base, the Corporation currently expects that the hotel management profit margin in 1999 should remain at approximately the same percentage as in 1998.

Hotel Management EBITDA
($ millions)



Hotel Ownership Operations

Hotel ownership earnings in 1998 decreased 39.4% to $9.3 million, as compared to $15.4 million in 1997. The decrease in hotel ownership earnings reflects (i) the disposition of the Corporation's 25% interest in The Ritz-Carlton Hotel Chicago effective January 1, 1998, (ii) the inclusion of start-up operating losses from the Four Seasons Hotel Berlin, and (iii) a reduced dividend from The Regent Hong Kong. This decrease was partially offset by operating improvements at The Pierre in New York.

The decrease in dividends from the Corporation's 25% interest in The Regent Hong Kong was caused by the continuing decline in city-wide demand levels due to the city and regional economic crisis. The hotel realized a 40% decline in REVPAR and a 47% decline in gross operating profit in 1998, as compared to 1997, due to the lower demand levels. As a result, the distributable earnings from the hotel decreased from $6.0 million in 1997 to $2.0 million in 1998. The Corporation has now instituted a wide range of cost efficiency measures at the hotel which are intended to allow the hotel to maintain reasonable levels of profitability at these lower REVPAR levels which are expected to continue for at least the next 12 months.

The Pierre Hotel in New York realized increases in REVPAR and gross operating profit of 13% and 21%, respectively, in 1998, as compared to 1997. The hotel benefitted from continued strong demand levels and no new supply of competitive luxury rooms in the New York market. The Corporation expects these favourable operating conditions to continue in the New York market and The Pierre should benefit from further REVPAR and operating profit improvements in 1999.

Hotel ownership earnings are expected to increase moderately in 1999, compared to 1998, primarily as a result of strong operating conditions in the New York market. This anticipated improvement at The Pierre will be partially offset by expected weaker demand levels in Vancouver caused by a weaker economy in British Columbia and lower in-bound Asian travel, as well as continued weakness at The Regent Hong Kong, for the reasons noted above.

Other Items

Foreign Exchange Gain

The foreign exchange gain of $14.0 million in 1998 was comprised of (i) a foreign exchange gain of $7.8 million resulting from the repatriation of funds by the Corporation from its principal Asian subsidiary, and (ii) the translation of foreign denominated (primarily pound sterling) long-term receivables (see note 12 to the consolidated financial statements).

Depreciation and Amortization

Depreciation and amortization expense in 1998 was $15.2 million, as compared to $15.8 million in 1997. The decrease of 3.7% is attributable primarily to the disposition of the Corporation's 25% interest in The Ritz-Carlton Hotel Chicago, partially offset by an increase in amortization expense related to management contracts. Depreciation and amortization is expected to decline in 1999, as compared to 1998, primarily due to lower amortization charges related to the Corporation's Asian assets.

Provision for Loss

As a result of (i) the significant decline in operating conditions in the Asian markets which occurred in 1997 and 1998, (ii) an economic outlook of no near-term recovery for most of the Asian markets, and (iii) the ongoing risk of further currency devaluations in the region, the Corporation reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. Based on this assessment, the Corporation has written down the carrying value of these assets to their estimated net recoverable amounts, resulting in a provision for loss in 1998 of $12.7 million (see note 2 to the consolidated financial statements).

Loss on Repurchase of Debt

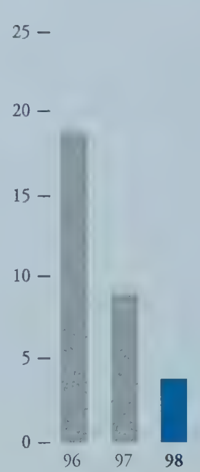
During 1998, the Corporation repurchased the remaining US$6.0 million (US$101.5 million in 1997) of its 9 1/8% Notes which resulted in an accounting loss of $0.4 million ($12.0 million in 1997) (see note 10(c) to the consolidated financial statements).

Net Interest Expense

Net interest expense in 1998 declined 57.4% to $3.8 million from $8.9 million in 1997. This decrease is attributable to: (i) lower interest rates resulting from the refinancing of the 9 1/8% Notes in mid-1997 with 6% debentures (the Corporation's weighted average cost of debt in 1998 was 6.5%, as compared to 8.4% in 1997), (ii) lower debt levels outstanding throughout 1998, as compared to 1997, and (iii) increased interest income, primarily from the loan made in late 1997 to the owner of the Hôtel George V in Paris and from the note received on the sale of the Inn on the Park in Toronto in 1996 (partially offset by a reduction in interest income from cash reserves during 1998).

Net interest expense in 1999 is expected to approximate 1998 levels, with moderately higher debt levels and related interest expense expected to be offset by additional interest income from anticipated investments in new projects.

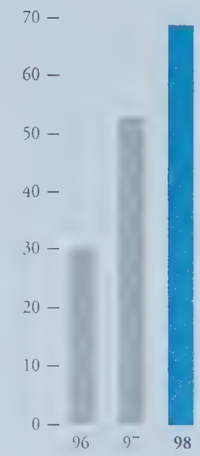
Net Interest Expense
($ millions)



Income Tax Expense

The Corporation's effective tax rate in 1998 was 2.0%, compared with a 3.8% effective tax rate in 1997. The low effective tax rate is due primarily to the utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995. The Corporation will continue to benefit from the utilization of most of the remaining unrecorded tax losses in 1999, and is expected to realize a more normalized effective tax rate, in the mid-20% range, in the year 2000.

Normalized Net Earnings
($ millions)



Net Earnings and Earnings per Share

Net earnings and earnings per share in 1998 were $69.7 million and $2.06 per share, respectively. Excluding the foreign exchange gain of $14.0 million, the provision for loss of $12.7 million, and the loss on repurchase of debt of $0.4 million, normalized net earnings were $68.8 million and normalized earnings per share were $2.04 in 1998. Net earnings in 1997 were $40.8 million and earnings per share were $1.24. Excluding the $12.0 million loss on repurchase of debt, normalized net earnings were $52.8 million and normalized earnings per share were $1.61 in 1997. The 30.4% increase in normalized net earnings and 26.7% increase in normalized earnings per share resulted from strong growth in hotel management operations and lower net interest costs resulting from lower interest rates, declining debt levels and increased interest income in 1998, partially offset by a decrease in hotel ownership earnings.

Year ended December 31, 1997 compared to year ended December 31, 1996

Hotel Management Operations

Revenues

Fee revenues increased $11.3 million or 11.9% to $106.0 million in 1997, as compared to $94.7 million in 1996. The increase is attributable to increased incentive fees of $5.7 million, an increase in fees from hotels recently opened and from new management agreements of $4.8 million, fees from vacation ownership of $2.0 million, an increase in fees from hotels under development of $1.3 million, and an increase in other fees of $1.9 million. The growth in fee revenues was offset primarily by the termination during 1996 of management agreements for Regent hotels in Melbourne, Auckland, and Fiji, and the Inn on the Park in Toronto (which together accounted for a reduction of $4.4 million of fee revenues). Incentive fees contributed 23.2% of the total fee revenues in 1997, compared to 20.2% in 1996.

Total revenues of all managed hotels increased to $2.1 billion in 1997, as compared to $1.9 billion in 1996. Growth in revenue was driven by continued strong performance in both the North American and European markets, offset by a weak performance in the Asian market in the last half of 1997. The weakness in a number of the Asian markets caused a decline in REVPAR, on a US dollar basis, of 8.2% and a decline in gross operating profit of 9.4% in hotels under management in that region in 1997. Compared to 1996, this resulted in a reduction of approximately $1 million in fee revenues from the Asian hotels in 1997. The Corporation's Core Hotels showed an average increase of approximately 5% in REVPAR, on a US dollar basis, in 1997, as compared to 1996, primarily as a result of increases in room rates. The REVPAR, increase realized in 1997, combined with enhanced operating efficiencies, resulted in an increase of approximately 10% in the gross operating profit of Core Hotels in 1997, as compared to 1996.

General and Administrative Expenses

General and administrative expenses increased by $3.3 million or 8.4% in 1997, as compared to 1996, due to increasing staff levels, certain regional moves necessary to allow for the Corporation's expansion into Europe, the Middle East and India, and as a result of the incentives earned by management in respect of the financial performance of the Corporation in 1997.

Hotel Management Earnings

As a result of the changes in fee revenues and expenses discussed above, the Corporation's hotel management earnings increased by $8.0 million or 14.3% to $63.7 million in 1997. Hotel management earnings represented 80.5% of the Corporation's earnings before other operating items in 1997, as compared with 86.2% in 1996. The decrease was due to the consolidation of the Corporation's 100% leasehold interests in The Pierre in New York and the Four Seasons Hotel Vancouver in 1997.

Hotel Ownership Operations

Hotel ownership earnings in 1997 increased 73.0% to $15.4 million, as compared to $8.9 million in 1996. The increase in hotel ownership earnings was attributable to the inclusion of the 100% leasehold interests in The Pierre in New York and the Four Seasons Hotel Vancouver with effect from December 30, 1996, and the strong operating conditions in the New York, Chicago and Vancouver markets. This improved operating performance was offset by a decrease in distributions from the Corporation's 25% interest in The Regent Hong Kong, caused by weakness in the operations of the hotel due to a significant decline in demand in that market during the last six months of 1997. This reduction in demand is a result of the combined effects of local conditions and the economic downturn experienced in a number of Asian markets. As a result, the distributable earnings from the hotel decreased from $9.2 million in 1996 to $6.0 million in 1997.

Other Items

Depreciation and Amortization

Depreciation and amortization expense in 1997 was $15.8 million, as compared to $14.0 million in 1996. This increase of 12.6% is attributable primarily to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997.

Loss on Repurchase of Debt

During 1997, the Corporation repurchased US$101.5 million of its 9 1/8% Notes which resulted in an accounting loss of $12.0 million (see note 10(c) to the consolidated financial statements).

Net Interest Expense

Net interest expense in 1997 declined 52.4% to $8.9 million from $18.8 million in 1996. This decrease is attributable to: (i) lower debt levels, (ii) lower interest rates (Four Seasons' weighted average cost of debt in 1997 was 8.4%, as compared to 8.6% in 1996) as a result of the replacement of the 9 1/8% Notes in mid-1997 with 6% debentures (the weighted average cost of debt on a full-year basis after the replacement was approximately 7%), and (iii) increased interest income primarily from cash reserves, together with the interest income from the loan made in 1997 to the owner of the Hôtel George V in Paris.

Income Tax Expense

The Corporation's effective tax rate in 1997 was 3.8%, as compared with a 6.2% effective tax rate in 1996. The low effective tax rate is due primarily to the utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995.

Net Earnings and Earnings per Share

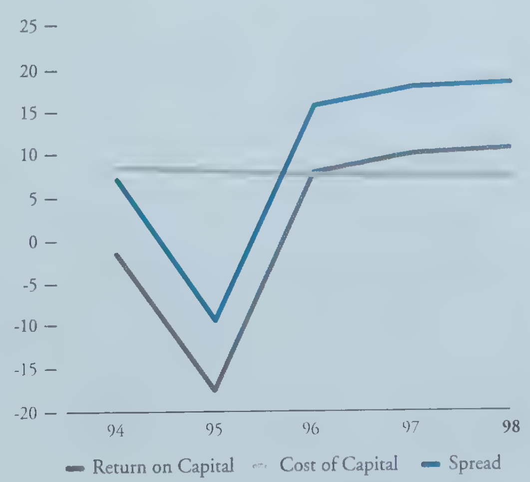
Net earnings and earnings per share in 1997 were $40.8 million and $1.24 per share, respectively. Excluding the $12.0 million loss on repurchase of debt, normalized net earnings were $52.8 million and normalized earnings per share were $1.61 in 1997. Net earnings in 1996 were $29.9 million and net earnings per share were $1.04. The 76.8% increase in normalized net earnings and 54.8% increase in normalized earnings per share resulted from strong growth in hotel management operations, and an increase in hotel ownership earnings primarily due to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997, offsetting lower management and ownership earnings from the Corporation's Asian hotels, and lower net interest costs resulting from declining debt levels, lower interest rates and increased interest income in 1997.

LIQUIDITY

Four Seasons generally funds its capital and operating requirements with cash flow from operations and its available bank lines. The Corporation utilizes cash from operations, debt and equity financing to (i) make capital investments to obtain long-term management agreements and to enhance existing management agreements, (ii) fund its share of hotel capital improvements and operating requirements where it holds an equity interest and where the operating cash flow from these hotels is insufficient to fund these requirements, and (iii) make principal and interest payments on corporate debt.

In 1999, based upon the current business plan, the Corporation expects total capital spending of approximately $75 million, including dividends and those items noted on pages 45 and 46, which will be funded from cash on hand and cash generated by operations. In addition to this expected capital spending, the Corporation is also expecting to fund approximately US$11 million (approximately $17 million) in a resort and vacation ownership project under construction in Scottsdale, Arizona and approximately US$12 million (approximately $18 million) relating to the construction of the Four Seasons Hotel Prague. These two investments would be funded from cash generated from operations, as well as from the Corporation's bank credit facilities. It is the Corporation's strategic objective to reduce its equity commitment to the Prague and Scottsdale projects to be consistent with its more typical minority ownership interest or loan structures.

Capital Spread Analysis
(percent)



Annual Data from 1994 through 1998
Source: Goldman, Sachs & Co.

Equity Financing and Debt Refinancing

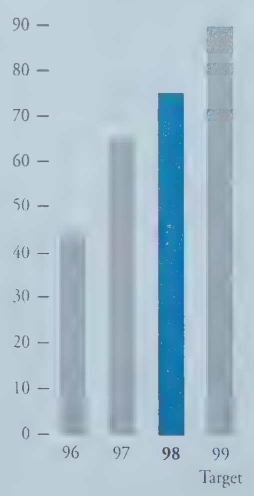
On February 12, 1997, FSHI issued 4,370,000 Limited Voting Shares ("LVS") for gross proceeds of $122.4 million. The net proceeds from the sale of the LVS, after deducting offering expenses and underwriters' commission, were $113.7 million. The Corporation used the net proceeds of the offering to repay all its existing bank indebtedness, to fund a loan in connection with acquiring the long-term management agreement for the Hôtel George V in Paris, for investment in new hotel management agreements, and for general working capital purposes. Coincident with the equity offering, the Corporation listed its shares on the New York Stock Exchange. These steps allowed the Corporation to increase its shareholder value by diversifying its shareholder base, increasing liquidity and improving the financing alternatives available to the Corporation.

During 1997 and 1998, the Corporation repurchased its 9 1/8% Notes (in 1998 US$6 million for US$6.2 million, in 1997 US$101.5 million for US$108.5 million). The repurchase in 1997 was funded by proceeds from cash reserves and the issue of $100 million unsecured five-year debentures due 2002, which bear interest at 6% per annum. The balance of the Notes were repurchased in 1998 using cash on hand. The debt repurchases resulted in an accounting loss of $0.4 million in 1998 and $12 million in 1997. As a result of the debt refinancing, the Corporation was able to significantly reduce its overall cost of capital and provide greater flexibility for future financings.

Total debt, net of cash, declined from a peak level of approximately $373 million in June 1994 to $147 million as at December 31, 1998. This reduction in debt was achieved through the application of asset sale proceeds, equity issuance proceeds, and cash generated by operations. As at December 31, 1998, approximately 62% (80% at December 31, 1997 and 63% at December 31, 1996) of Four Seasons' long-term debt was at fixed interest rates.

As at December 31, 1998, the Corporation had US$69 million available in undrawn committed bank facilities. The Corporation has a commitment from its principal banker to increase its available bank facilities by an additional US$100 million, which is expected to be finalized during the first half of 1999. The Corporation believes that its bank operating credit facilities, when combined with internally generated cash flow, should allow it to finance all of its normal operating needs and commitments to new investments to achieve its growth objectives.

Operating Cash Flow
($ millions)



Operating Cash Flow

For the year ended December 31, 1998, cash flow from operations was $75.0 million, compared to $64.8 million in 1997. The working capital generated from hotel management operations was $15.5 million higher in 1998 than in 1997, reflecting the improvement in hotel management earnings discussed above. Net interest paid decreased $7.6 million in 1998, as compared to 1997, due to lower interest rates and debt levels and an increase in interest income in 1998. The working capital increase was partially offset by a reduction of working capital generated from hotel ownership operations of $9.5 million in 1998, as compared to 1997, primarily as a result of lower hotel ownership earnings, and a change in non-cash working capital of $3.7 million in 1998, as compared to 1997.

Cash flow from operations was $64.8 million in 1997, as compared to $43.7 million in 1996. The working capital generated from hotel management operations was $7.4 million higher in 1997 than in 1996. The working capital

generated from hotel ownership operations was $10.7 million higher in 1997 than in 1996, primarily as a result of improved hotel ownership earnings in 1997. Net interest paid decreased by $10 million in 1997, as compared to 1996, due to lower debt levels and interest rates and an increase in interest income in 1997. The working capital increase was partially offset by a change in non-cash working capital of $7.4 million in 1997, as compared to 1996.

Operating cash flow is expected to increase to more than $90 million in 1999. The Corporation expects that more than 80% of the cash generated from operations in 1999 will be expended to generate new revenue streams, as outlined above.

Fixed Asset Additions and Improvements

Owners of hotels managed by Four Seasons are contractually responsible for funding the capital requirements of the hotels, including major guest room and common area renovations, and for maintaining capital reserves to fund ongoing annual maintenance capital expenditures required by the management agreements. The owners annually spend an average of 4% of gross revenues of the hotels on capital expenditures to maintain properties at the Four Seasons standard (other than in newly constructed or recently renovated properties where the annual amounts generally range from 1% to 2% in the years of operation following opening and major refurbishment). Additional funds are made available for special capital projects as required to maintain the luxury standards specified in the Four Seasons' hotel management agreements. Capital expenditures are funded primarily by working capital generated from hotel operations and through advances from the hotel owners. Four Seasons' share of these capital expenditures was $13.9 million, $10.5 million and $1.3 million in 1998, 1997, and 1996, respectively, for its consolidated hotels and corporate offices. The increase as compared to 1997, related primarily to the expansion of the corporate office in Toronto. The significant increase in capital expenditures in 1997, as compared to 1996, related primarily to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997. Four Seasons' share of capital expenditures was immaterial for those hotels in which Four Seasons has a minority equity interest or pursuant to management contract obligations.

For 1999, Four Seasons has budgeted capital expenditures of approximately $13 million in its consolidated hotels and corporate offices.

Investments in and Advances to Managed and Owned Hotels

As discussed above, in order to secure a new management agreement or to improve an existing management agreement, the Corporation may at times make a loan or a minority investment. The loan or investment will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment and risk profile. Depending on the nature of the loan or investment, it will be characterized as "Investments in hotel partnership and corporations," an "Investment in management contracts," or "Long-term receivables."

Investments in and Advances to Managed and Owned Hotels

During 1998, the Corporation invested (i) $8.8 million in a hotel under construction in Prague, in which it has a 66.7% interest, (ii) $0.9 million ($2.7 million in 1996) in a resort and vacation ownership project in Scottsdale, in which it has a 4.7% equity interest and a 65.8% voting interest; (iii) $2.0 million in 1998 ($4.7 million in 1997) in a resort and vacation ownership project under construction in Punta Mita, Mexico, in which it has a 30.8% interest, and (iv) $0.6 million ($1.2 million in 1997) in the related golf club in which it has a 12.3% interest. The Corporation is currently in discussions with potential new investors with the intent to reduce its equity interests in the Prague and Scottsdale projects prior to or upon completion of construction.

For hotels in which the Corporation has less than a 20% interest, it invested $0.5 million in 1998 ($1.7 million in 1997 and $11.4 million in 1996) to fund operating and capital requirements, primarily in recently opened hotels or hotels under construction or development. Of the $11.4 million advanced in 1996, approximately $6.9 million related to a hotel then under development (and now under construction) in Cairo and approximately $3.2 million related to a resort and a vacation ownership project then under development (and now open) in Aviara.

The Corporation received $13 million net cash proceeds in January 1997 upon the closing of the sale of the Four Seasons Hotel Toronto.

During 1996, operating cash flow of approximately $6.3 million was generated by certain hotels which have since been sold. These funds, together with amounts advanced by Four Seasons of $1.4 million in 1996, were used to fund approximately $5.9 million of capital expenditures and $1.8 million of principal and interest on property specific debt.

Additional investments in hotels in which the Corporation has, or is expected to have, an equity interest are forecast to be approximately $45 million to $50 million in 1999. Potential equity investments in 1999 include projects such as Canary Wharf, Prague, Shanghai and San Francisco.

Long-term Receivables

The Corporation advanced $68.5 million in 1998, of which approximately $38.3 million (£16.3 million) related to the Four Seasons Hotel London (see discussion under "Four Seasons Hotel London" on page 36), approximately $11.9 million (Australian $12.8 million) related to the Corporation's proposed equity interest in The Regent Hotel Sydney (see note 4(d) to the consolidated financial statements), and approximately $14.9 million related to the resort and vacation ownership project under construction in Scottsdale.

Of the $38.5 million of long-term receivables advanced in 1997, approximately $37.9 million (French francs 161.6 million) was advanced to an affiliate of Kingdom in connection with the acquisition of the long-term management agreement for the Hôtel George V in Paris (see note 4(b) to the consolidated financial statements). Of the $9.7 million of long-term receivables advanced in 1996, approximately $8.7 million related to the repayment of a note payable for which Four Seasons was contingently liable. As a result of the termination of the management of The Regent Auckland in 1996, Four Seasons was repaid approximately $4.6 million of advances and deferred management fees. In addition, upon the sale of the Four Seasons Resort Nevis in November 1996, a loan of US$3 million plus accrued interest was repaid to the Corporation. In addition, the Corporation advanced in 1998 a total of US$1.6 million (US$5.9 million in 1997), which completed a US$7.5 million commitment, as a loan to the owner of the Four Seasons Hotel Atlanta, in connection with the long-term management agreement acquired in 1997.

Based upon current estimates, the Corporation expects to make advances of approximately $40 million to $45 million in 1999. Potential advances in 1999 include projects such as Sydney, Scottsdale and Kuda Huraa in the Maldives.

Operating Risks

The anticipated 1999 hotel management operating results, hotel ownership results, depreciation and amortization, net interest expense, income tax expense, operating cash flow, fixed asset additions and improvements, investments in hotel partnerships and corporations, long-term receivables and total capital spending, among others, all more thoroughly described above, are subject to many risks and uncertainties, including those discussed below.

Lodging Industry Conditions

Four Seasons focuses exclusively on the luxury segment of the hotel industry, which is subject to operating risks inherent in the lodging industry. These risks include, among other things, changes in general and local economic conditions, periodic overbuilding in the industry or a specific market, varying levels of demand for rooms and related services (including food and beverage and function space), competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in wages, prices, construction and maintenance costs that may result from inflation, government regulations and changes in interest rates, the availability of financing for operating or capital requirements, natural disasters, extreme weather conditions, labour disputes, political instability and terrorism and their effects on travel. The industry also is subject to seasonal fluctuations, resulting in variances in the Corporation's quarterly fee revenues and operating results. Four Seasons operates luxury hotels and resorts in many areas of the world and its revenues are dependent upon the revenues of individual hotels and resorts derived from all sources. The above-listed conditions can from time to time have a major adverse impact upon individual hotels or particular regions. A prolonged period of economic recession would materially and adversely affect the Corporation's results of operations.

Competition

The luxury segment of the hotel industry is subject to intense competition, both for guests and for the acquisition of new management agreements. Competition for guests arises primarily from luxury hotel chains, individual luxury hotels and resorts and a limited number of luxury properties operated by larger hotel chains. That competition is based on brand name recognition, location, room rates and quality of service and accommodations. Demographic, geographic and other changes in specific market conditions could materially and adversely affect the convenience or desirability of the locales in which hotels and resorts that are managed by Four Seasons are located.

Four Seasons competes for hotel management opportunities with other hotel operators. Four Seasons believes that its ability to obtain management agreements is based primarily on the value and quality of its management services, brand name recognition and the economic advantages to the hotel owner of retaining Four Seasons' management services and using its brand names. Four Seasons also believes that an owner's assessment of the economic advantages of retaining Four Seasons' management services and using its brand names is, in part, a function of the success of the hotels currently under management by Four Seasons. Competitive factors also include relationships with hotel owners and investors, marketing support, reservation system capacity and the ability to make investments that may be necessary to obtain management agreements. Four Seasons' failure to compete successfully for expansion opportunities or to attract and maintain relationships with investors who currently own hotels could materially and adversely affect its results of operations.

Dependence on Management Agreements

Management agreements expire or are acquired, terminated or renegotiated in the ordinary course. Failure to obtain new management agreements or maintain existing management agreements could materially and adversely affect the Corporation's results of operations. Four Seasons manages hotels for various hotel owners subject to the terms of each hotel's management agreement. Those agreements generally can be terminated by the non-defaulting party upon default in payment or unremedied failure to comply with the terms of the agreement. Most of the management agreements are

subject to performance tests that, if not met, could allow the agreement to be terminated by the owner prior to the expiration of its term. The failure to maintain the standards specified in the agreement or to meet the other terms and conditions of an agreement could result in the loss or cancellation of a management agreement. Typically, but not in all cases, Four Seasons has certain rights to cure a default to avoid termination. Some management agreements also can be terminated if the hotel is sold by the owner to a new owner that does not want to retain the existing agreement. In certain cases these contracts provide for a termination pay-out upon cancellation of the agreement.

In the event of bankruptcy of a hotel and foreclosure, a management agreement may be terminated in most jurisdictions, unless, to the extent permitted by local bankruptcy laws, the lender has executed a non-disturbance agreement. Four Seasons generally has non-disturbance agreements with the lenders to owners of hotels that it manages. Where no non-disturbance agreement is in place, the risk of loss of a management agreement increases where debt that cannot be serviced adequately is incurred by the hotel owner at the hotel level. In some jurisdictions, particularly the United States, management agreements have been construed by courts to create an agency relationship that is terminable by the owner, notwithstanding any provision of the agreement that purports to make the agreement not terminable. In such circumstances, the management company would generally have an unsecured claim for breach of contract against the owner of the hotel or its trustee in bankruptcy.

Management agreements for hotels and resorts managed by the Corporation currently have remaining terms (including extension periods at the Corporation's election) averaging approximately 57 years for Four Seasons hotels and resorts and approximately 16 years for Regent hotels and resorts. Only three management agreements have remaining terms of less than 10 years. Two of these relate to The Regent Hotel Taipei and The Regent Hotel Bangkok, which expire in 2000 and 2005, respectively. Although the management contract for The Regent Hotel Taipei expires in 2000, the annual base management fee from the hotel of US$1.9 million ceased at the end of 1998. For the years ended December 31, 1998 and 1997, these two hotels contributed, in aggregate, $4.3 million and $4.6 million, respectively, in fee revenue. The Corporation's investment in the management agreement for The Regent Hotel Taipei has been fully amortized as at December 31, 1998.

The third situation relates to The Regent Hong Kong, where the initial term of both the management agreement and the operating lease expire in 2000. There is an option to extend the lease agreement for an additional 10 years. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel and has entered into the management agreement. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. The Corporation does not control the lease extension rights; however, it intends to take whatever action may be necessary to protect its minority interest in the lessee and its interest in the management agreement. There can be no assurance as to the result of the assertion of these rights. Hotel management fees and distributions from The Regent Hong Kong, in aggregate, accounted for approximately $5.5 million and $11.6 million of the Corporation's consolidated revenues in 1998 and 1997, respectively. Due to continuing uncertainty in Asia, the Corporation wrote off the balance of the investment in the management agreement for this hotel in 1998 (a total provision of $6.0 million). The book value of the investment in the leasehold interest (US$5 million as at December 31, 1998) is considered to be realizable out of dividend distributions over the remaining lease term and the lease renewal option.

Dependence on Hotel Owners

As a result of the strategic decision of Four Seasons to focus on management, as opposed to ownership, of hotel properties, Four Seasons' growth opportunities are dependent in part on its ability to establish and maintain satisfactory relationships with existing and new hotel investors. Those growth opportunities also are dependent on access to capital by these investors. In 1998, no owner had interests in any combination of hotels, resorts and vacation ownership properties managed by Four Seasons that represent in excess of 10% of total consolidated revenues of the Corporation. A failure by Four Seasons to maintain satisfactory relationships with any owner of a significant number of hotels could have a material adverse effect on the Corporation's results of operations.

Risk Associated with Expansion, Growth and New Construction

An element of Four Seasons' business strategy is to increase the number of hotels and resorts under management. That expansion is dependent upon a number of factors, including the identification of appropriate management opportunities, competing successfully for the management agreements relating to those opportunities, availability of financing for new developments and timely completion of construction of new hotel and resort properties (or the refurbishment of existing properties) that are, or are to be, managed by Four Seasons.

From time to time, the hotel industry has experienced periods during which financial institutions have been reluctant to provide financing for the construction of real estate properties, including hotels. The inability to obtain financing for a project will cause cancellation of, or short-term interruption in, the progress or completion of properties under construction or development. Additionally, any construction project entails significant construction risks that could delay or result in a substantial increase in the cost of construction. The opening of newly constructed properties, in particular, is contingent upon (among other things) receipt of all required licences, permits and authorizations, including local land use permits, building and zoning permits, health and safety permits and liquor licences. Changes or concessions required by regulatory authorities also could involve significant additional costs and delay or prevent completion of construction or opening of a project. As a result of the global nature of Four Seasons' business, these regulatory matters arise in a number of jurisdictions, many of which have distinctive regulatory regimes.

Contingent Liabilities

Four Seasons currently has guaranteed third party debt of US$5 million (approximately $8 million) with respect to principal and interest relating to the construction financing for the Four Seasons Resort Aviara. Four Seasons has also provided an IR£3.0 million (approximately $6 million) guarantee to fund construction cost overruns after a 10% contingency in connection with the Four Seasons Hotel Dublin. The guarantee may only be called after the opening date of the hotel. Four Seasons has provided additional guarantees in connection with the vacation ownership development at the Four Seasons Resort Aviara. One such guarantee was entered into to allow lenders to the project access to any distributions received by the Corporation in respect of its ownership interest in the case of a default in respect of debt related to the development. Other such guarantees, which are not material, have been entered into in the ordinary course in connection with the development of the project. Any amounts that the Corporation believes it is probable that it will have to pay on these guarantees have been provided for in the consolidated financial statements.

Until 1982, FSHL held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately $22 million (of which approximately $20.6 million plus accrued interest was outstanding as at December 31, 1998) in connection with the property and FSHL provided a several guarantee with respect to the

financing. FSHL sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of FSHL's obligations under the mortgage. FSHL has been advised by the mortgagee that a default has occurred under the mortgage and the mortgagee has commenced a proceeding against Four Seasons and another guarantor. The Corporation is vigorously defending the suit and believes that, as a result of, among other things, the sale by FSHL of its interest in the property and the resulting obligations of the purchaser, obligations of FSHL, if any, to the mortgagee should be offset by corresponding claims against the purchaser.

There is no assurance that Four Seasons will not be required to pay an amount in excess of its current expectations in respect of any of these contingent liabilities.

Investments and Advances

The Corporation has made investments in, and loans in respect of, some of the hotels and resorts that it manages to enable it to acquire the management agreements for those properties or to enhance the terms of those agreements. Currently, Four Seasons holds an ownership or leasehold interest in, or has made loans in respect of or to, 11 of the 43 hotels and resorts that it manages and has made, or expects to make, investments in, or loans in respect of, 14 of the 18 projects under construction or development. In addition, the Corporation has an investment in three vacation ownership properties, two of which are currently under construction. The book value of those investments and advances as at December 31, 1998 was approximately $219 million.

In addition to the risks associated with operations of a hotel discussed above (see Lodging Industry Conditions and Competition), Four Seasons is subject to risks generally related to owning and leasing real estate in respect of these properties. These risks include, among others, adverse changes in general or local economic conditions, local real estate market conditions, property and income taxes, interest rates, the availability, cost and terms of financing, liability for long-term lease obligations, the potential for uninsured casualty and other losses, the impact of present or future legislation or regulation (including those relating to the environment), adverse changes in zoning laws and other regulations, civil unrest and political instability. In addition, investments in real estate are relatively illiquid and the ability of the Corporation to dispose of its ownership interests, particularly its leasehold interests, in response to changes in economic and other conditions may be limited. Any of these factors could result in material operating losses by a particular hotel or resort and possibly the loss of the Corporation's equity investment in the property or the inability to collect loans outstanding. Holding an interest in a hotel also introduces risks associated with funding of capital expenditures and the Corporation's proportionate share of any operating losses. Where working capital reserves provided by hotel operations are insufficient, debt service, major repairs, renovations, alterations or other capital expenditures generally must be funded by the owners of the hotels and resorts, including in some cases Four Seasons.

Government Regulation

Four Seasons is subject to laws, ordinances and regulations relating to, among other things, environmental matters, the preparation and sale of food and beverages, accessibility for disabled persons and general building and zoning requirements in the various jurisdictions in which Four Seasons manages hotels and resorts. Owners and managers of hotels also may be subject to laws governing the relationship with hotel employees, including minimum wage requirements, overtime, working conditions and work permit requirements. Compliance with these laws can affect the revenues and profits of hotels managed by Four Seasons or could materially and otherwise adversely affect Four Seasons' operations.

Four Seasons, as the current or previous owner or operator of certain hotels, could be liable for clean-up of contamination and other corrective action under various laws, ordinances and regulations relating to environmental matters. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the condition requiring environmental response. The presence of contamination from hazardous or toxic substances, or the failure to properly remediate a contaminated property, may affect an owner's ability to sell or rent the property, to use the property for its intended purpose, or to borrow using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the cost of removal or remediation of substances at the disposal or treatment facility regardless of whether the facility is or was owned or operated by them. In connection with the operation and ownership of various hotels, Four Seasons could be held liable for the cost of remedial action with respect to environmental matters. Four Seasons is not aware of any potential material environmental liabilities for which Four Seasons will be responsible with respect to any of the hotels in which it currently has, or previously had, an ownership interest.

Pursuant to the management agreements to which Four Seasons is a party, the owner is responsible for the costs and expenses of the employees at each hotel and for all costs, expenses and liabilities incurred in connection with the operation of the hotel, including compliance with government regulations. However, Four Seasons may be contingently liable for certain liabilities in respect of which it does not maintain insurance, including certain workers' compensation claims, environmental liabilities and, in respect of hotels in the United States, claims arising under the Americans with Disabilities Act.

Four Seasons generally obtains indemnities from the owners of the hotels that it manages in respect of these liabilities. The value of those indemnities is dependent upon the financial condition of the owners that have provided them.

Political Risk

Four Seasons currently manages and/or has an equity interest in hotels and resorts in 18 countries and currently has development plans to open hotels and resorts in 10 additional countries. In certain of these countries, from time to time, the related assets and revenues may be exposed to political risk.

Insurance

All hotels and resorts managed by Four Seasons are insured against property damage, business interruption and liability at the expense of the owner of the hotel. Under these policies Four Seasons also is insured against loss of fee income in the event of a temporary business interruption at any of the hotels and resorts that it manages. In addition, Four Seasons obtains indemnities from the owners of the hotels that it manages in respect of damages caused by acts, omissions and liabilities of the employees of the hotel or of Four Seasons, other than damages resulting from certain actions of Four Seasons and certain senior management personnel. If Four Seasons were held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial conditions could be materially and adversely affected.

Currency Exposure

Four Seasons has entered into management agreements with respect to hotels throughout the world and reports its results in Canadian dollars; however, its relevant currency risk is in US dollars, as more than half of its revenues and assets currently are US dollar denominated or, in the case of fee revenues and dividend distributions from The Regent Hong Kong, are pegged to the US dollar. In 1998, approximately 72% of the Corporation's consolidated revenues were US dollar denominated or pegged to the US dollar, compared to 74% in 1997. Four Seasons manages this currency exposure through

the use of foreign exchange forward contracts. As at December 31, 1998, Four Seasons had sold forward US$139.8 million under 26 forward contracts maturing over a 25-month period. The Corporation earned 11% of its consolidated revenues in 1998 in 11 foreign currencies not pegged to the US dollar, as compared to 9% in 12 foreign currencies in 1997. Except for the pound sterling in 1998, none of the revenues in these currencies individually exceeded 3% of Four Seasons' consolidated revenues in 1998 or 1997. Four Seasons manages the pound sterling currency exposure (long-term receivables and revenues) through the use of foreign exchange forward contracts. As at December 31, 1998, Four Seasons has sold forward £37.7 million under seven forward contracts maturing between February 1999 and March 2001.

As a result of the ongoing economic difficulties in parts of Asia, there has been public speculation that the Hong Kong dollar peg to the US dollar could be altered or removed, potentially resulting in a significant devaluation of the Hong Kong dollar. Various senior Chinese government officials, including Hong Kong's chief executive, Tung Chee-hwa, have on numerous recent occasions countered the public speculation by emphasizing that the peg will remain in place at its current value. The Corporation earned fees and dividends distributions of approximately HK$30.6 million (approximately $5.5 million) in 1998 from The Regent Hong Kong. A devaluation of the Hong Kong dollar could therefore result in a large reduction in Canadian dollar reported earnings by the Corporation. To counteract the impact of any devaluation in the Hong Kong dollar that may occur, the Corporation would, among other steps, price its hotel rooms in US dollars. The Corporation set up a provision in 1998 against the book value of its investment in the leasehold interest in the hotel, in part due to concerns about the potential impact of a currency devaluation.

Certain currencies are subject to exchange controls which, in practice, have never resulted in a restriction of the payment of management fees to Four Seasons. In addition, certain of these currencies are not freely traded and are relatively illiquid. To date, Four Seasons has not incurred any material losses resulting from an inability to convert these foreign currencies at favourable exchange rates. Management attempts to minimize its foreign currency risk by monitoring its cash position, keeping fee receivables current, and monitoring the political and economic climate in each country.

In certain hotels, the foreign currency risks are further mitigated by pricing room rates in US dollars.

Asian Asset Exposure

As a result of the significant currency devaluations and continuing economic downturn in parts of Asia, the Corporation in 1998 reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. These assets consist primarily of the Corporation's investment in The Regent Hong Kong and its investments in management agreements related to Asia. Based on these revised estimates, the Corporation determined that certain of these assets were not recoverable from future cash flows. Accordingly, provisions for loss against these assets were recognized in 1998 (see note 2 to the consolidated financial statements). The Corporation, however, believes the book value of its remaining assets located in, or related to, Asia are recoverable from future cash flows. However, these estimates are based on projections regarding future revenues of hotels located in Asia, which, in turn, are based on assumptions regarding future economic conditions in Asia. Should the underlying assumptions change, the estimated recoverable amounts would have to be adjusted accordingly, and the adjustments could be material.

Seasonality

Four Seasons' hotels are affected by normally recurring seasonal patterns and, for most of the hotels, demand is lower in December through March than during the remainder of the year. The Corporation's hotel ownership operations are

particularly affected by seasonal fluctuations, with lower revenue, operating profit and cash flow in the first and fourth quarters. Hotel management operations also are somewhat seasonal in nature, as fee revenues are affected by the seasonality of hotel revenues and operating results. Urban hotels generally experience lower revenues and operating results in the first and fourth quarters. However, this is offset, to some degree, by increased travel to resorts in those months and may be offset to a greater extent as the portfolio of resort properties managed by Four Seasons increases.

Year 2000 Risk

Four Seasons utilizes computer technologies throughout its business to carry out its day-to-day operations. Computer technologies include both information technology in the form of hardware and software, as well as embedded technology. The computer technologies exist at the Corporation's corporate offices, at its sales and satellite offices (together, the "Corporate Offices"), at the individual hotels under Four Seasons management and at suppliers to the Corporate Offices and the hotels. Like most companies, the Corporation must determine whether its systems and those of its suppliers are capable of recognizing and processing date sensitive information properly as the year 2000 approaches and the Corporation has therefore designed a year 2000 program. The year 2000 program is intended to ensure that on December 31, 1999 all key systems are year 2000 compliant. Management believes it can achieve this objective.

The Corporation has hired a year 2000 co-ordinator and has established a year 2000 committee (the "Committee") to monitor the progress of the implementation of the year 2000 program. The Committee is responsible for identifying all year 2000 exposures and for developing the remedial plans to resolve those issues. The Audit Committee of the Board of Directors of the Corporation is monitoring the work of the Committee.

The year 2000 program for the Corporation consists of a multi-phased plan for each of the Corporate Offices and the hotels. The phases included in the program include assessment, remediation, testing and contingency phases.

The assessment phase has been completed by Four Seasons, which involved undertaking an inventory of the infrastructure, software applications and embedded technologies for all hotels and Corporate Offices to identify which systems, services and equipment would most likely be affected by the year 2000 problem. In addition, a risk assessment of each system, service and piece of equipment, either installed or provided by vendors, was completed to identify the issues critical to operations to enable the Corporation to prioritize the remediation effort.

Four Seasons is currently in the remediation phase of the program. In this phase, the Corporation is actively correcting and replacing those systems and equipment within the Corporate Offices and the hotels which are not year 2000 compliant, with the intention of ensuring the Corporation's ability to continue to meet its internal needs and those of the hotels under its management. While the Corporation will oversee the effort by its hotels to address the year 2000 issue, the cost associated with the remediation effort is the responsibility of the owner of each hotel. The remediation phase of the program is expected to be completed by mid-1999. As a December 31, 1998, approximately 70% of the key systems within the Corporate Offices and the hotels have been remediated and the Corporation anticipates that over 90% will be remediated by March 31, 1999.

The testing phase of the program has been implemented by Four Seasons. The testing efforts are focused on all hardware, software, embedded systems and services considered most critical to the operations of both the Corporate Offices and the hotels. Testing will be conducted on three fronts: (i) on a centralized basis for those systems, services and equipment which are common among all or a majority of the Corporate Offices and/or hotels; (ii) on a regional basis, for those systems, services and equipment which are common among a few hotels only; and (iii) on a local hotel basis, for systems, services and equipment applicable to specific hotels.

The Corporation has also started the contingency planning phase with the issue to each hotel of contingency plans for all key systems. These contingency plans address all actions and resources necessary to mitigate the effect of any disruption to hotel operations or guests as a result of failure of one or more of these systems. Hotels are in the process of customizing these plans for local conditions and of drafting further contingency plans for systems unique to their own operation. The Corporation is currently finalizing contingency plans for critical corporate systems such as the systems used by its Worldwide Reservations Office.

Steps have been taken by Four Seasons to address the year 2000 issues within its control and within the control of the hotels under its management. In addition, the Corporation has initiated formal communications with its significant suppliers and vendors to determine the extent to which the Corporation may be vulnerable in the event that those parties fail to properly remediate their own year 2000 issues and has advised each hotel to conduct similar enquiries with its suppliers and vendors. The Corporation will not be able to conduct testing of critical services provided by suppliers, like the public utilities, and must limit its reliance on their continued operation to statements from those suppliers that they will continue to provide their services after December 31, 1999 to the same level of standards to which the Corporate Offices and/or hotels are accustomed. While the Corporation continues to take steps to monitor the progress made by those parties, the Corporation recognizes that ultimately it has little or no control over these parties' remedial plans relating to the year 2000 problem. The contingency plans to be put in place are intended to allow the Corporation to minimize the effect of any disruption caused by the inability of a supplier to provide the same level of services after December 31, 1999, notwithstanding their assurances.

The Corporation currently believes that both it and the hotels under its management will be able to modify, replace, or mitigate their affected systems, services and equipment in time to avoid any material detrimental impact on the Corporation's operations. While the Corporation is not presently aware of any significant exposure as a result of its systems, services and equipment and those of the hotels under its management not being properly remediated on a timely basis, there can be no assurances that all year 2000 remediation processes will be completed and properly tested before the year 2000, that unknown issues will not arise, or that contingency plans will sufficiently mitigate the risk of a year 2000 readiness problem. An interruption of the Corporation's ability to conduct its business, or the ability of a number of the hotels under its management to operate, due to a year 2000 problem, could have a material adverse effect on the Corporation.

Many forms of computer technology are utilized by Four Seasons throughout its core business operations. The reliance on these systems and the associated risks to the Corporation of system failures includes: safety of hotel guests, welfare of employees, loss of critical data stored on computer systems, and the loss of income. It has been the policy of the Corporation to minimize the use of systems programmed in-house and instead, to utilize systems from major software and hardware suppliers each with a large installed base.

Four Seasons operates hotels in 16 countries outside Canada and the United States. A significant interruption affecting the ability to operate a hotel in any one of these countries would not have a material adverse effect on the Corporation. The Corporation could be adversely impacted by the failure of a significant supplier, such as its supplier of Central Reservations Services, to address the year 2000 problem. A significant interruption in public services such as power generation or telephone services in a large portion of the United States or Canada could also have a material impact on the Corporation's operations.

The Corporation estimates that the aggregate costs of its year 2000 program for itself and all managed hotels will be approximately $9.3 million, including costs already incurred. The Corporation estimates its share of this cost to be $650,000, of which $250,000 was incurred in 1998. The costs related to purchases of new software and hardware will be capitalized. Other costs will be expensed as incurred. Based on its current estimates and information currently available, management does not believe that the costs of the year 2000 program will have a material adverse impact on the Corporation's financial condition, results of operations or cash flow in future periods.

The anticipated impact and costs of the program, as well as the date on which the Corporation expects to complete the program, are based on management's best estimates using information currently available and numerous assumptions about future events. However, there can be no guarantee that those estimates will be achieved and actual results could differ materially from those planned.

Euro Conversion

The Corporation has analyzed the impact that the conversion of several European currencies to the Euro will have on its operations, including its impact on competition, information technology and other systems, currency risks, derivatives and other financial instruments, material contracts, tax matters and accounting costs. The Corporation believes that the Euro conversion will not have a material impact on the Corporation's operations or financial condition.

Corporate Information

Market for Securities

The Limited Voting Shares are listed on the Toronto, Montreal and New York stock exchanges.

Dividend Policy

The Board of Directors of FSHI has established a policy of paying a semi-annual dividend to holders of its shares. Since 1990 and until October 3, 1996, FSHI paid semi-annual cash dividends of $0.055 per Limited Voting Share ("LVS") and Variable Multiple Voting Share. Since October 3, 1996, the dividend entitlement in respect of the Variable Multiple Voting Shares has been reduced to 50%, on a per share basis, of the dividend entitlement on the LVS. The payment of dividends in the future is subject to the Corporation's earnings and financial condition and such other factors as FSHI's Board of Directors may deem relevant. There are no restrictions currently that prevent FSHI from continuing to pay a semi-annual dividend of $0.055 per LVS.

Directors and Officers

The following table sets forth certain information regarding each of FSHI's executive officers and directors:

Name and Residence	Position with FSHI	Principal Occupation
Isadore Sharp (1) *Toronto, Ontario*	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer, Four Seasons Hotels Limited
Edmond M. Creed (1) *Toronto, Ontario*	Director	Retired executive
Frederick Eisen *Toronto, Ontario*	Director	President and Chief Executive Officer, The Eisen Corporation
H. Roger Garland *Toronto, Ontario*	Vice Chairman and Director	Vice Chairman, Four Seasons Hotels Limited
Nan-b de Gaspé Beaubien (1)(2) *Montreal, Quebec*	Director	President, Institute for Family Enterprise and Vice Chairperson of Gasbeau Company
Charles S. Henry (1)(3)(4) *New York, New York*	Director	President, Hotel Capital Advisers, Inc.
Murray B. Koffler (3)(5) *Toronto, Ontario*	Director	Partner, The Koffler Group
J. Robert S. Prichard (2)(3) *Toronto, Ontario*	Director	President, University of Toronto
Lionel H. Schipper (1)(3)(5) *Toronto, Ontario*	Director	President, Schipper Enterprises Inc.
John L. Sharpe *Toronto, Ontario*	President, Chief Operating Officer and Director	President and Chief Operating Officer, Four Seasons Hotels Limited
Benjamin Swirsky (1)(3)(5) *Toronto, Ontario*	Director	Chairman, PC Docs Group
Shuichiro Tamaki *Tokyo, Japan*	Director	Advisor, Jowa Corporation
Simon M. Turner (4)(5) *Rye, New York*	Director	Principal, Hotel Capital Advisers, Inc.
Christopher Wallis *Toronto, Ontario*	Executive Vice President and Director	Executive Vice President, Design and Construction, Four Seasons Hotels Limited
Douglas L. Ludwig *Toronto, Ontario*	Executive Vice President, Chief Financial Officer and Treasurer	Executive Vice President, Chief Financial Officer and Treasurer, Four Seasons Hotels Limited
Wolf Hengst *Toronto, Ontario*	Executive Vice President	Executive Vice President, Operations Four Seasons Hotels Limited
Craig O. Reith *Toronto, Ontario*	Vice President Finance and Assistant Treasurer	Vice President Finance and Assistant Treasurer, Four Seasons Hotels Limited
Kathleen Taylor *Toronto, Ontario*	Executive Vice President, Chief Corporate Officer and Secretary	Executive Vice President, Chief Corporate Officer and Secretary, Four Seasons Hotels Limited

(1) Member of the Compensation and Organization Committee
(2) Elected by the holders of the Limited Voting Shares
(3) Member of the Corporate Governance Committee
(4) Nominee of Kingdom, which has the right pursuant to an agreement with Triples Holdings Limited and Isadore Sharp to elect two directors to the FSHI' s Board of Directors
(5) Member of the Audit Committee

Edmond M. Creed, Murray B. Koffler and Isadore Sharp have served as directors of the Corporation and Four Seasons Hotels Inc.'s predecessor corporation since January 9, 1978. Frederick Eisen, H. Roger Garland, John L. Sharpe, Benjamin Swirsky and Christopher Wallis were elected to the Board of Directors of Four Seasons Hotels Inc.'s predecessor corporation on October 1, 1985. Lionel H. Schipper was appointed to the Board of Directors on February 18, 1988. Shuichiro Tamaki was appointed to the Board of Directors on April 18, 1991. Charles S. Henry was appointed to the Board of Directors on November 11, 1994. J. Robert S. Prichard was appointed to the Board of Directors on March 6, 1996. Simon M. Turner was appointed to the Board of Directors on January 2, 1997. Nan-b de Gaspé Beaubien was elected to the Board of Directors on May 23, 1997.

All of the Directors will hold office until the next annual meeting of shareholders, or until their successors are elected or appointed. All of the officers and directors of Four Seasons Hotels Inc. have held their principal occupations for more than five years with the exception of: H. Roger Garland who was Executive Vice President prior to April 1995; Charles Henry who was Director, Real Estate Finance, with CS First Boston prior to July 1994; John Sharpe who was Executive Vice President prior to April 1995; Benjamin Swirsky who was President and Chief Executive Officer of Beswir Capital Inc. prior to November 1998 and was President and Chief Executive Officer of Slater Steel, Inc. prior to February 1998; Shuichiro Tamaki who was Advisor of the Industrial Bank of Japan prior to August 1994; Simon Turner who was a Director of the Investment Banking department of Salomon Brothers Inc. prior to May 1996; Christopher Wallis who was Senior Vice President, Design and Construction prior to April 1995; Douglas Ludwig who was Senior Vice President, Chief Financial Officer and Treasurer prior to January 1997; Wolf Hengst who was President of Regent International Hotels Limited prior to March 1998; and Kathleen Taylor who was Senior Vice President, General Counsel and Secretary prior to January 1997.

The directors and senior officers of Four Seasons Hotels Inc., as a group, own beneficially, directly or indirectly, or exercise control or direction over, the following number of LVS and Variable Multiple Voting Shares:

Description of Class	No. of Shares	Percentage of Class
Limited Voting Shares	750,204	2.49%
Variable Multiple Voting Shares	4,171,924	100%

ADDITIONAL INFORMATION

Four Seasons shall provide to any person, upon request to the office of the Secretary of Four Seasons Hotels Inc. at 1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8 (telephone (416) 449-1750):

(a) when the securities of Four Seasons Hotels Inc. are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

  (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form,

  (ii) one copy of the comparative financial statements of Four Seasons for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of Four Seasons subsequent to the financial statements for its most recently completed financial year,

  (iii) one copy of the Management Information Circular of Four Seasons Hotels Inc. prepared for the most recent Annual Meeting of Shareholders, and

  (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that in either case Four Seasons may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Four Seasons Hotels Inc.

Additional information relating to Four Seasons, including directors' and officers' remuneration and indebtedness, interests of insiders in material transactions, principal holders of securities of Four Seasons Hotels Inc. and options to purchase securities is contained in Four Seasons Hotels Inc.'s Management Information Circular prepared for the most recent Annual Meeting of Shareholders. Additional financial information, including consolidated comparative audited financial statements for the years ended December 31, 1997 and 1998, is provided in Four Seasons' 1998 Annual Report.

A copy of such documents may be obtained upon request from the Secretary of Four Seasons Hotels Inc. at the address and telephone number noted above.

Corporate Chart

The following chart illustrates Four Seasons' corporate structure, in which Four Seasons has a significant interest, either directly or indirectly, and their jurisdictions of incorporation or organization.

FOUR SEASONS HOTELS INC. (Ontario Corporation)	
FOUR SEASONS HOTELS LIMITED (A) (Ontario Corporation)	100% (B)
FOUR SEASONS HOTELS AND RESORTS B.V. (C) (Netherlands Corporation)	100% (D)
FOUR SEASONS HOTEL BERLIN Gmbh (E) (German Corporation)	100% (D)
FOUR SEASONS HOTELS (BARBADOS) LTD. (Barbados Corporation)	100% (D)
FSR INTERNATIONAL HOTELS LIMITED (F) (Hong Kong Corporation)	100% (D)
EURASIA HOTEL LIMITED (Hong Kong Corporation)	25% (D)

Notes:

(A) The management of Four Seasons hotels in North America is generally carried out by Four Seasons Hotels Limited.
(B) Direct.
(C) The management of Four Seasons hotels outside North America is generally carried out by Four Seasons Hotels and Resorts B.V.
(D) Indirect.
(E) The hotel ownership of the Four Seasons Hotel Berlin (a 100% leasehold interest).
(F) The management of Regent hotels is generally carried out by FSR International Hotels Limited (formerly known as Regent International Hotels Limited).

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Four Seasons Hotels Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Corporation and the selection of accounting principles appropriate to the Corporation's circumstances. The consolidated financial statements, notes and other financial information included in the Annual Report were prepared in accordance with accounting principles generally accepted in Canada. The statements also include estimated amounts based on informed judgments of current and future events, for items such as the useful lives of capital assets and provisions for impairment in the value of assets. These estimates are made with appropriate consideration of the materiality of the amounts involved. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management is also responsible for maintaining a system of internal controls and budgeting procedures which are designed to provide reasonable assurance that assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, and relevant and reliable financial information is produced. To augment the internal control system, the Corporation maintains a program of internal audits covering significant aspects of the operations.

The Corporation's Audit Committee is appointed by the Board of Directors annually. The Committee meets with the internal and independent auditors (who have free access to the Audit Committee) and with management, to satisfy itself that each group is properly discharging its responsibilities, and to review the financial statements, the independent auditors' report and other financial information appearing in the Corporation's Annual Report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

KPMG LLP, the independent auditors appointed by the shareholders of the Corporation, have examined the financial statements in accordance with generally accepted auditing standards.

Isadore Sharp
Chairman and Chief Executive Officer
February 17, 1999

Douglas L. Ludwig
Chief Financial Officer,
Executive Vice President and Treasurer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations, retained earnings (deficit), cash provided by operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada
February 17, 1999

KPMG LLP
Chartered Accountants

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1998 and 1997 *(In thousands of dollars except per share amounts)*	1998	1997
Consolidated revenues	$ 248,778	$ 240,393
HOTEL MANAGEMENT OPERATIONS:		
Revenues	$ 126,947	$ 105,996
General and administrative expenses	(47,064)	(42,336)
	79,883	63,660
HOTEL OWNERSHIP OPERATIONS:		
Revenues	126,055	135,308
Distributions from hotel investments	2,732	6,354
Expenses:		
Cost of sales and expenses	(112,485)	(118,978)
Fees to Hotel Management Operations	(6,956)	(7,265)
	9,346	15,419
Earnings before other operating items	89,229	79,079
Other operating items:		
Foreign exchange gain (note 12)	13,969	—
Depreciation and amortization	(15,164)	(15,752)
Provision for loss (note 2)	(12,728)	—
Loss on repurchase of debt (note 10(c))	(376)	(12,021)
Earnings from operations	74,930	51,306
Interest expense, net (note 10(f))	(3,802)	(8,932)
Earnings before income taxes	71,128	42,374
Income tax expense (note 13):		
Current	(1,136)	(1,421)
Deferred	(290)	(183)
	(1,426)	(1,604)
Net earnings	$ 69,702	$ 40,770
Earnings per share	$ 2.06	$ 1.24

See accompanying notes to consolidated financial statements.

December 31, 1998 and 1997
(In thousands of dollars)

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,591	$ 25,335
Receivables (note 3)	58,610	44,747
Inventory	1,681	1,588
Prepaid expenses	1,952	1,785
	79,834	73,455
Long-term receivables (note 4)	150,866	79,672
Investments in hotel partnerships and corporations (notes 2 and 5)	76,761	66,688
Fixed assets (note 6)	31,464	43,416
Investment in management contracts (notes 2 and 7)	131,705	105,960
Investment in trademarks and trade names (note 8)	39,268	61,021
Deferred income taxes	7,152	—
Other assets (note 9)	28,006	23,000
	$ 545,056	$ 453,212
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 49,666	$ 57,249
Long-term debt due within one year (note 10)	1,062	1,290
	50,728	58,539
Long-term debt (note 10)	163,925	138,951
Deferred income taxes	—	1,209
Shareholders' equity (note 11):		
Capital stock	300,805	298,382
Contributed surplus	4,784	4,784
Retained earnings (deficit)	11,236	(54,961)
Equity adjustment from foreign currency translation	13,578	6,308
	330,403	254,513
Commitments and contingencies (note 14)		
	$ 545,056	$ 453,212

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Isadore Sharp
Director

Benjamin Swirsky
Director

Years ended December 31, 1998 and 1997
(In thousands of dollars)

	1998	1997
CASH PROVIDED BY (USED IN) OPERATIONS:		
HOTEL MANAGEMENT OPERATIONS:		
Earnings before other operating items	$ 79,883	$ 63,660
Items not requiring an outlay of funds	4	704
Working capital provided by Hotel Management Operations	79,887	64,364
HOTEL OWNERSHIP OPERATIONS:		
Earnings before other operating items	9,346	15,419
Items not requiring (providing) an outlay (inflow) of funds	(509)	2,926
Working capital provided by Hotel Ownership Operations	8,837	18,345
	88,724	82,709
Interest paid, net	(3,220)	(10,814)
Current income tax expense	(1,136)	(1,421)
Change in non-cash working capital	(9,407)	(5,680)
Cash provided by operations	$ 74,961	$ 64,794

See accompanying notes to consolidated financial statements.

Years ended December 31, 1998 and 1997
(In thousands of dollars)

	1998	1997
CASH PROVIDED BY (USED IN):		
Operations	$ 74,961	$ 64,794
Financing:		
Long-term debt, including current portion:		
Issued	45,562	106,823
Repaid	(10,461)	(219,747)
Issuance of shares (note 11)	2,423	120,625
Other	(678)	(948)
Cash provided by financing	36,846	6,753
Capital investments:		
Increase in long-term receivables	(68,476)	(38,535)
Decrease in long-term receivables	2,178	2,648
Hotel investments	(21,921)	(8,369)
Disposal of hotel investments	12,781	13,000
Purchase of fixed assets	(13,885)	(10,508)
Investment in trademarks, trade names and management contracts	(19,819)	(9,343)
Other assets	(7,179)	(7,170)
Cash used in capital investments	(116,321)	(58,277)
Dividends paid	(3,502)	(3,180)
Increase (decrease) in cash	(8,016)	10,090
Increase (decrease) in cash due to unrealized foreign exchange gain (loss)	272	(149)
Cash and cash equivalents, beginning of year	25,335	15,394
Cash and cash equivalents, end of year	$ 17,591	$ 25,335

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Years ended December 31, 1998 and 1997
(In thousands of dollars)

	1998	1997
Deficit, beginning of year	$ (54,961)	$ (92,278)
Net earnings	69,702	40,770
Dividends declared	(3,505)	(3,453)
Retained earnings (deficit), end of year	$ 11,236	$ (54,961)

See accompanying notes to consolidated financial statements.

Years ended December 31, 1998 and 1997
(In thousands of dollars except per share amounts)

Four Seasons Hotels Inc. ("FSHI") is incorporated under the Business Corporations Act of the Province of Ontario and, through its subsidiaries, is engaged in the management of, and the investment in, hotel, resort and vacation ownership properties throughout the world (note 16). (FSHI and its subsidiaries are collectively referred to as the "Corporation.")

At December 31, 1998, the Corporation managed 42 hotels and resorts, one vacation ownership property and had various projects under construction or development, of which the Corporation had an equity interest in seven hotels and resorts under management, one vacation ownership property and five projects under construction. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues and operating profits of the managed properties.

1. Significant accounting policies:

The Corporation's accounting policies and its standards of financial disclosure comply with accounting principles that are generally accepted in Canada. The significant accounting policies are summarized below:

(a) Principles of consolidation:

The Corporation consolidates all of its wholly-owned subsidiaries, including its primary operating subsidiaries – Four Seasons Hotels Limited and FSR International Hotels Limited ("Regent") (formerly Regent International Hotels Limited).

The Corporation consolidates its 100% leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York, and until its disposition on January 1, 1998, the Corporation also proportionately consolidated its hotel joint venture, The Ritz-Carlton Hotel Chicago (25%) (note 5(b)).

(b) Accounting for investments in hotel partnerships and corporations:

The Corporation accounts for its investments in hotel partnerships and corporations by the cost method because either the percentage ownership and structure does not give the Corporation significant influence over these investments or the investments were acquired with the intention that they be disposed of in the foreseeable future.

The Corporation recognizes revenue on its investment in these partnerships and corporations when profit distributions are receivable from the partnerships or corporations.

In the event of a decline in value of an investment in the equity of a hotel partnership or corporation that is other than temporary, the investment is written down to the estimated recoverable amount.

(c) Translation of foreign currencies:

Foreign currency balances of the Corporation and of foreign operations designated as integrated are translated into domestic currencies at the rates of exchange on the balance sheet date for monetary items, and at the rates of exchange on the date of transaction for non-monetary items. The resulting translation gains or losses are included in the determination of net earnings, except for gains or losses related to foreign currency denominated long-term debt designated as hedges of investments in self-sustaining foreign operations, which are deferred and included in a separate component of shareholders' equity.

Translation gains or losses on foreign exchange forward contracts designated as hedges of long-term receivables are included in income in the same period as the related translation losses or gains on the hedged receivables. Any premiums or discounts on the forward contracts are amortized to interest expense over the terms of the contracts.

Revenues and expenses denominated in foreign currencies are translated at the rates of exchange on the dates of the transactions, except for revenues hedged by foreign exchange forward contracts, which are translated at the contract rates.

The financial statements of foreign investments designated as self-sustaining operations are translated into Canadian dollars as follows:

(i) Assets and liabilities at rates of exchange on the balance sheet date; and

(ii) Revenue and expense items at average rates of exchange in effect during the year.

The resulting exchange gains and losses are deferred and included in a separate component of shareholders' equity.

A gain or loss equivalent to a proportionate amount of the exchange gains and losses accumulated in the separate component of shareholders' equity is recognized in income when there has been a reduction in the net investment resulting from a sale of part or all of the Corporation's interest in the foreign operation, or a reduction in the shareholders' equity of the foreign operation as a result of dividend distributions or other capital transactions.

(d) Capital assets:

Land, buildings, furniture, fixtures, equipment and leasehold interests and improvements are recorded at cost less accumulated depreciation and amortization.

The cost of hotel management contracts acquired as part of the acquisition of Regent in 1992 represents the present value at the time of acquisition of the estimated future net cash flows expected to be received over the estimated lives of the contracts.

Prior to January 1, 1998, the cost of trademarks and trade names included the estimated fair value of the "Regent" trademark and trade name at the date of the Regent acquisition. Subsequently, the cost of trademarks and trade names includes the portion of the net book value that relates to the rights to the "Regent" name transferred to Carlson Hospitality Worldwide (note 8(a)).

The cost of trademarks and trade names also include the cost of registering the "Four Seasons" trademarks and trade names throughout the world.

(e) Depreciation and amortization of capital assets:

Depreciation of buildings is recorded on a straight-line basis over 40 years.

Depreciation of furniture, fixtures and equipment is recorded on a straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. The estimated composite useful lives for furniture, fixtures and equipment range from 3 to 20 years.

Amortization of leasehold interests and improvements is recorded on a straight-line basis over the terms of the leases.

The costs allocated to trademarks and trade names are amortized on a straight-line basis over a 40-year period.

The costs allocated to the hotel management contracts acquired as part of the Regent acquisition are amortized on a straight-line basis over the remaining terms of the contracts, which ranged from 8 to 40 years, with an average of 27 years, at the date of acquisition.

The recoverability of the unamortized cost of trademarks, trade names and hotel management contracts is periodically evaluated to determine whether such costs will be recovered from future operations. The Corporation bases these evaluations upon the projected future fee stream on an undiscounted basis. If the undiscounted fee streams are insufficient to recover the remaining net book value, then the undiscounted fee stream is used as the revised carrying value, and a write-down for the difference is recorded. Events that cause impairment to individual hotel management contracts, such as termination or sale, result in write-offs as the events occur.

(f) Deferred charges:

The Corporation defers development costs directly relating to the negotiation, structuring and execution of new contracts relating to projects which, in management's judgment, have a high probability of opening. When the property is opened, these deferred charges are reclassified to "Investment in management contracts." If the project is abandoned, any deferred charges are written off. The deferred charges associated with new management contracts developed by the Corporation are amortized on a straight-line basis over a 10-year period commencing when the hotel is opened.

(g) Cash and cash equivalents:

The Corporation's investments in cash and cash equivalents are highly liquid, with maturities of less than 30 days. These investments are bank deposits and guaranteed investment certificates with the Corporation's primary banker.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The most significant estimates that the Corporation is required to make relate to the recoverability of its investments in (i) long-term receivables, (ii) hotel partnerships and corporations, (iii) management contracts, and (iv) trademarks and trade names.

The estimated recoverable amounts of these investments usually depend upon estimates of the profitability of the related managed hotels, which, in turn, depend upon assumptions regarding future conditions in the general or local hospitality industry, competition from other hotels, changes in travel patterns, and other factors that affect the hotels' gross operating revenue (which is the factor on which the Corporation's base management fee revenues are normally based) and net operating profit (which is the factor on which the Corporation's incentive fee revenues are normally based).

The estimates of recoverable amounts of these investments may also depend upon assumptions regarding local real estate market conditions, property and income taxes, interest rates and the availability, cost and terms of financing, the impact of present or future legislation or regulation, and other factors affecting the profitability and saleability of the hotels.

These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of recoverable amounts are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated recoverable amounts could change by a material amount.

(i) Earnings per share:

Earnings per share is based on the weighted average number of Variable Multiple Voting Shares and Limited Voting Shares outstanding during the years (note 11(a)). Conversion of outstanding options to purchase Limited Voting Shares is not materially dilutive.

(j) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

2. PROVISION FOR LOSS:

As a result of the continuing economic downturn in parts of Asia and the risk of future significant currency devaluations, the Corporation has reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. These assets consist primarily of the Corporation's investment in The Regent Hong Kong and its investments in management contracts for "Regent" hotels located in Asia.

The management contracts for two "Regent" hotels located in Asia and the lease relating to The Regent Hong Kong are due to expire in the next two years. Although the Corporation is in discussions with each of the owners of these properties regarding potential extensions or other changes to the existing management agreements, there is no certainty regarding the outcome of those discussions. Accordingly, the Corporation has written down the carrying value of these investments to their estimated net recoverable amounts, resulting in a provision for loss of $12,728.

3. RECEIVABLES:

	1998	1997
Trade accounts of consolidated hotels	$ 9,013	$ 11,369
Receivable from hotel partnerships, affiliates and managed hotels	38,016	22,511
Other	11,581	10,867
	$ 58,610	$ 44,747

Receivables at December 31, 1998 are recorded net of an allowance for doubtful accounts of $2,532 (1997 – $3,811). The net bad debt recovery for the year ended December 31, 1998 was $752 (1997 – net bad debt expense of $2,051).

4. LONG-TERM RECEIVABLES:

	1998	1997
Secured cash flow bond, due 2005, interest at 10%, £11.2 million (1997 – £11.6 million) (a)	$ 28,946	$ 27,454
Secured loans:		
Secured by shares:		
Interest at 6%, FF 161.6 million (1997 – FF 161.6 million) (b)	44,728	39,219
Interest at 10%, £12.2 million (c)	31,535	—
Interest at LIBOR plus 3%, US$10,128	15,659	—
Secured by a hotel property sold (d)	6,717	6,940
Due from directors, officers and employees, non-interest bearing notes and mortgages	7,706	5,643
Unsecured loans to managed hotels:		
Non-interest bearing, AUS$12,822 (e)	12,157	—
Non-interest bearing loans, US$5,991 (1997 – US$5,291) (f)	9,262	7,581
Interest at Canadian bankers' acceptance rate plus ¾%	1,886	—
	158,596	86,837
Less allowance for doubtful long-term receivables (f)	(7,730)	(7,165)
	$ 150,866	$ 79,672

(a) The cash flow bond was received by the Corporation in 1995 as consideration for the sale of its 50% interest in the Four Seasons Hotel London to an affiliate of Kingdom Investments Inc. ("Kingdom"), which is a significant shareholder of FSHI. Principal and interest on the bond are payable annually every March out of the purchaser's 50% portion of the available cash flow (as defined in the bond indenture) from the hotel. The bond is secured by the purchaser's investment

in the hotel. During 1998, principal repayment of £0.4 million (1997 – £1 million) was received by the Corporation as well as all interest accrued on the bond to March 1998. Interest income from the bonds has been fully accrued in 1998, as the Corporation believes there is reasonable assurance the interest will be received in March 1999.

(b) In connection with the acquisition of the Hôtel George V in Paris by an affiliate of Kingdom, the Corporation advanced, in 1997, a loan to an affiliate of Kingdom in the amount of approximately French francs 161.6 million. The loan is secured by Kingdom's indirect interest in the hotel.

Following an extensive renovation program, the Corporation expects that it will manage the hotel pursuant to a long-term management agreement. When and if this occurs, the Corporation will reclassify the loan to "Investment in management contracts" and amortize it over 40 years. The loan will be repaid in accordance with an agreed-upon formula if the management agreement is terminated for any reason, or if the renovation program is not completed.

(c) The loan, which is due in 2038, was made by the Corporation to an affiliate of Kingdom to finance the acquisition by the affiliate of a further 37.5% interest in the Four Seasons Hotel London (note 5(c)). Principal and interest on the loan are payable annually every March out of the newly acquired 50% portion of the available cash flow from the hotel. The loan is secured by the affiliate's newly acquired indirect interest in the hotel. Interest income from the loan has been fully accrued in 1998, as the Corporation believes there is reasonable assurance the interest will be received in March 1999.

(d) The Corporation received a promissory note relating to the sale of the Inn on the Park Toronto in 1996. The note has a face value of $10,000, bears interest at 6% per annum and is repayable over the period to January 17, 2001. At maturity, the debtor has the option to extend the note for a further five years. The debtor also has the option to prepay any or all of the principal and interest outstanding, without penalty, at any time. The note has been recorded at a discounted amount, using a rate of interest that takes into account the risks associated with the note. The principal and interest due on the note for 1998 was received by the Corporation.

(e) The Corporation advanced, in 1998, a non-interest bearing loan to the purchaser of The Regent Hotel Sydney in the amount of Australian $12,822. Upon agreement between the Corporation and the owner of the hotel of: (i) the proposed renovation program for the hotel; (ii) the terms and conditions of a shareholders' agreement; and (iii) a revised hotel management agreement, the loan will be converted into an equity interest in the hotel of less than 20%. If agreement between the Corporation and owner cannot be reached, the loan will be repaid.

(f) As at December 31, 1998 and 1997, the Corporation had advanced a total of US$5,000 to the owner of The Regent Hotel Jakarta which opened in late 1995. This loan is unsecured, non-interest bearing, and convertible into a 5% equity interest in the hotel, subject to regulatory approval. If the loan is not converted into equity of the hotel, the loan is repayable in full on December 14, 2003. The Corporation has fully reserved for the loan as at December 31, 1998 and 1997.

Changes in the allowance for doubtful long-term receivables consist of:

	1998	1997
Balance, beginning of year	$ 7,165	$ 6,855
Foreign exchange	565	310
	$ 7,730	$ 7,165

The only impaired long-term receivable identified by the Corporation at December 31, 1998 and 1997 is discussed in item (f) above. No interest income was recognized on impaired long-term receivables in 1998 or 1997.

5. Investments in hotel partnerships and corporations:

	1998	1997
The Regent Hong Kong ((a) and note 2)	**$ 7,730**	$ 15,270
Four Seasons Hotel London (c)	**10,581**	—
Four Seasons Hotel Prague (d)	**8,782**	—
Four Seasons Resort Scottsdale (e)	**4,027**	2,866
Other hotel partnerships and corporations	**45,641**	48,552
	$ 76,761	$ 66,688

(a) Investment in The Regent Hong Kong:

The Corporation has a 25% leasehold interest in The Regent Hong Kong. The initial term of the leasehold terminates in December 2000 with an option to renew for a further 10 years exercisable by the lessee. The Corporation amortizes the cost of its investment in The Regent Hong Kong on a straight-line basis over the remaining term of the initial leasehold. Amortization expense during the year was $2,766 (1997 – $2,586).

(b) Disposition of investments in The Ritz-Carlton Hotel Chicago and the Four Seasons Hotel Chicago:

Effective January 1, 1998, the Corporation reached an agreement to exchange its 25% ownership interest in The Ritz-Carlton Hotel Chicago for the elimination of certain termination provisions contained in the management agreement of the hotel, and also reached an agreement to exchange its 7.7% ownership interest in the Four Seasons Hotel Chicago for relief from certain lease funding obligations. In a separate transaction, the terms of the management agreement of The Ritz-Carlton Hotel Chicago were improved. The net book value of the assets and liabilities disposed of were as follows:

Current assets (net of cash of $2,593)	$ 1,670
Long-term assets	30,977
Accounts payable and accrued liabilities	(3,987)
Long-term debt due within one year	(322)
Long-term debt	(15,557)
Net assets disposed of	$ 12,781

The Corporation has accounted for the disposition of its ownership interests in The Ritz-Carlton Hotel Chicago and the Four Seasons Hotel Chicago as non-monetary exchanges of assets that do not represent the culmination of the earnings process. Accordingly, no gain was recognized on these transactions, and the excess of $15,374 of the net book value of the Corporation's investments in these hotels over the cash proceeds received has been reclassified to "Investment in management contracts" (note 7). Management believes that the incremental fair value of the amended management contracts exceed the amounts reclassified.

(c) Investment in the Four Seasons Hotel London:

Effective January 1, 1998, the Corporation and an affiliate of Kingdom acquired the 50% ownership interest in the Four Seasons Hotel London that the affiliate did not already own. The Corporation acquired a 12.5% ownership interest in the hotel and the affiliate increased its ownership interest in the hotel from 50%, which it acquired from the Corporation in 1995 (note 4(a)) to 87.5%. To facilitate the acquisition, the Corporation invested £16.3 million, which includes a loan of £12.2 million (note 4(c)) and an investment in preferred shares of £4.1 million.

The preferred shares bear a cumulative annual dividend of 10%, and are redeemable at the option of the Corporation. Dividends on, and redemptions of, the preferred shares are funded from the newly acquired 50% portion of the available cash flow (as defined in the shareholders agreement) from the hotel.

(d) Investment in the Four Seasons Hotel Prague:

The Corporation has a 66.67% equity interest in the company that owns and is constructing the Four Seasons Hotel Prague. The Corporation is in discussions with potential purchasers for a portion or all of the Corporation's investment in this hotel.

(e) Investment in the Four Seasons Resort Scottsdale:

The Corporation has a 4.65% equity interest and a 65.79% voting interest in the company that owns and is constructing the Four Seasons Resort Scottsdale, and in the company that owns the related Resort Club. The equity interest is anticipated to increase up to 65.79% as additional capital contributions are made. The Corporation is in discussions with potential purchasers for a portion or all of the Corporation's investment in this project.

(f) Investment in hotel joint venture:

The Corporation's proportionate interest in the assets and liabilities of The Ritz-Carlton Hotel Chicago, which was proportionately consolidated in these financial statements as at December 31, 1997, is summarized as follows:

	1997
Current assets	$ 4,263
Long-term assets	23,154
	27,417
Current liabilities	(4,309)
Long-term debt	(15,557)
	(19,866)
	$ 7,551

The Corporation's proportionate interest in the revenues and expenses of The Ritz-Carlton Hotel Chicago, which was proportionately consolidated in these financial statements for the year ended December 31, 1997, is summarized as follows:

	1997
Revenues	$ 19,590
Expenses	(17,400)
	$ 2,190

6. Fixed assets:

			1998	1997
	Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Land	**$ 1,000**	**$ —**	**$ 1,000**	$ 4,402
Buildings	**8,224**	**(1,270)**	**6,954**	19,261
Furniture, fixtures and equipment	**25,876**	**(5,649)**	**20,227**	16,522
Leasehold interests and improvements	**4,535**	**(1,252)**	**3,283**	3,231
	$ 39,635	**$ (8,171)**	**$ 31,464**	$ 43,416

Depreciation and amortization expense for fixed assets was $2,303 (1997 – $3,464).

7. Investment in management contracts:

	1998	1997
Management contracts, at cost (notes 2, 5(b) and 8(a))	**$ 156,887**	$ 142,421
Less accumulated amortization	**(25,182)**	(36,461)
	$ 131,705	$ 105,960

Amortization expense for management contracts was $8,965 (1997 – $7,198).

8. Investment in trademarks and trade names:

	1998	1997
Trademarks and trade names, at cost	**$ 43,007**	$ 72,543
Less accumulated amortization	**(3,739)**	(11,522)
	$ 39,268	$ 61,021

(a) Disposition of "Regent" trade name:

In November 1997, the Corporation entered into an agreement with Carlson Hospitality Worldwide ("Carlson") pursuant to which Carlson acquired the rights to the "Regent" name for new development. The Corporation will continue to operate and manage the existing Regent hotels. The Corporation will be entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new development effort.

The portion of the net book value of the Corporation's investment in the "Regent" name that relates to the existing "Regent" hotels of US$11,488 was reclassified as "Investment in management contracts" and is being amortized over the terms of the related management contracts. The portion of the net book value that relates to the rights to the "Regent" name transferred to Carlson of US$22,240 was deferred and is being amortized over 40 years.

(b) Amortization expense:

Amortization expense for trademarks and trade names was $1,023 (1997 – $2,346).

9. Other assets:

	1998	1997
Bonds and debentures	$ 4,640	$ 2,868
Cash surrender value of life insurance policies (a)	14,859	13,312
Deferred development costs	6,032	3,943
Deferred financing costs	1,301	1,220
Other deferred costs	1,174	1,657
	$ 28,006	$ 23,000

(a) These policies insure the lives of senior executives and are designated to finance pension benefit obligations for these individuals (note 14(b)). These policies are held directly and indirectly by the Corporation.

10. Long-term debt:

	1998	1997
Unsecured debentures (a)	$ 100,000	$ 100,000
Bank credit facility (b)	47,926	—
Unsecured notes (c)	—	8,598
Mortgage (d)	—	15,879
Other long-term liabilities	17,061	15,764
	164,987	140,241
Less amounts due within one year	(1,062)	(1,290)
	$ 163,925	$ 138,951

(a) Unsecured debentures:

The unsecured debentures, with a face value of $100,000, were issued on July 2, 1997 at a discount for $99,723, and are due on July 2, 2002. The debentures bear interest at 6%, payable semi-annually, and are redeemable at the option of the Corporation, in whole or in part, at any time, at redemption prices provided for in the indenture.

(b) Bank credit facility:

The Corporation has a US$100,000 committed bank credit facility which matures in July 2002. As at December 31, 1998, the Corporation had borrowed US$31,000 (1997 – nil) under this credit facility. Borrowings under this credit facility bear interest at LIBOR plus a spread ranging between 0.3% and 1% (LIBOR plus 0.4% during 1998; LIBOR plus 0.5% during 1997) depending upon certain criteria specified in the loan agreement.

(c) Unsecured notes:

The Corporation repurchased the remaining outstanding unsecured notes with a face value of US$6,000 during 1998 (1997 – US$101,500) for US$6,225 (1997 – US$108,178), which resulted in an accounting loss of $376 (1997 – $12,021). The notes bore interest at 9 1/8% and were payable semi-annually. The notes repurchased have been cancelled by the Corporation. The 1997 repurchase was partly funded from the proceeds of the unsecured debentures issued in July 1997 (note (a) above).

(d) Mortgage:

The amount in 1997 of US$11,250 represented the Corporation's proportionate share of a mortgage on The Ritz-Carlton Hotel Chicago. The mortgage bore interest at rates ranging from the lower of LIBOR plus 1.50% and US prime plus 0.50%, up to the lower of LIBOR plus 2.25% and US prime plus 1.25%, depending on certain financial tests.

During 1998, the Corporation disposed of its investment in The Ritz-Carlton Hotel Chicago (note 5(b)).

(e) Scheduled long-term debt repayments:

1999	$ 1,062
2000	1,123
2001	1,113
2002	148,043
Subsequent to 2002	13,646
	$ 164,987

(f) Interest expense, net:

	1998	1997
Interest on long-term debt	**$ (9,027)**	$ (13,457)
Other interest expense	**(2,192)**	(1,892)
Interest income	**7,417**	6,417
Interest expense, net	**$ (3,802)**	$ (8,932)

(g) Restrictive debt covenants:

The bank credit facility contains certain covenants which require the Corporation to maintain certain financial ratios. In addition, the bank credit facility and the trust indenture relating to the unsecured debentures contain additional covenants which, in certain circumstances, restrict the Corporation's ability to borrow funds ranking superior to these obligations and undertake certain types of major transactions. The Corporation was in compliance with these covenants during 1998 and 1997. In addition, the bank credit facility is callable in certain circumstances by the creditors on a change of control of FSHI.

11. SHAREHOLDERS' EQUITY:

(a) Capital stock:

Authorized:

4,171,924 Variable Multiple Voting Shares ("VMVS"), entitling the holder to that number of votes that results in the aggregate votes attaching to the VMVS representing approximately 67% of the votes attaching to the VMVS and the Limited Voting Shares ("LVS"), in aggregate, which, at December 31, 1998 was 14.54 votes (1997 – 14.44 votes) per VMVS. Changes in the number of votes attaching to the VMVS necessary to maintain this level will occur concurrently with the issue of additional LVS.

The continued adjustment of the voting rights of the VMVS as a result of the issuance of LVS will be subject to ratification by the holders of the LVS every three years, commencing at the time of FSHI's annual meeting in 2000. If the maintenance of the adjustment mechanism is not confirmed by a simple majority of the votes cast by the holders of LVS (other than "prescribed holders" of LVS), any issue of LVS after that time (other than the issue of LVS pursuant to a right, option or similar obligation granted prior to that time) will not result in a further change in the number of votes attaching to the VMVS. Additionally, the continued application of the mechanism will be subject to ratification after any transfer of VMVS

that results in a person other than a member of the family of Isadore Sharp holding VMVS or after Isadore Sharp ceases to be the Chief Executive Officer of FSHI.

The VMVS rank equally with the LVS as to distributions on liquidation, dissolution or winding-up of FSHI. Effective from October 3, 1996, dividends declared and paid on the VMVS are in amounts per share equal to 50% of the dividends per share declared and paid on the LVS, regardless of whether the number of votes attaching to the VMVS is further increased.

VMVS are convertible into LVS on a one-for-one basis at the option of the holder. The shares automatically convert into LVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who makes an equivalent offer to purchase all outstanding VMVS and LVS.

Unlimited LVS, voting (one vote per share) and ranking equally with the VMVS as to distributions on liquidation, dissolution or winding-up of FSHI.

Unlimited First Preference Shares, issuable in series, non-voting and ranking prior to all other shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

Unlimited Second Preference Shares, issuable in series, non-voting and ranking prior to all other shares except the First Preference Shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

Issued and fully paid:

	VMVS		LVS		
	Shares	Stated value	Shares	Stated value	Total
December 31, 1996	4,171,924	$ 46	24,554,963	$ 177,711	$ 177,757
Public issue	—	—	4,370,000	113,699	113,699
Options exercised for cash	—	—	622,493	6,926	6,926
December 31, 1997	4,171,924	46	29,547,456	298,336	298,382
Options exercised for cash	—	—	190,902	2,423	2,423
December 31, 1998	**4,171,924**	**$ 46**	**29,738,358**	**$ 300,759**	**$ 300,805**

At the Special Meeting of Shareholders on December 19, 1989, the shareholders approved a Long-Term Incentive Plan whereby the chief executive officer of FSHI was granted the right to receive a special payment on an arm's length sale of control of FSHI (the "sale"). The amount of the payment is determined with reference to the sale price and the trading price of LVS on The Toronto Stock Exchange in the period preceding the sale. The right to receive the payment may be transferred among members of the officer's family, their holding companies and trusts.

Under executive share option plans, eligible directors, executives and employees may be granted options to acquire LVS at a price which is not less than the weighted average price of board lots traded on The Toronto Stock Exchange in the five trading days preceding the date of grant. The options are not transferable, have a term of 10 years, and generally become exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become exercisable within specified periods in the event of retirement, termination other than for cause (including as a result of a change of control of FSHI), incapacity or death of the director, executive or employee. As at December 31, 1998, there were options outstanding on 3,416,562 LVS (1997 – 3,113,464 LVS) at prices varying between $11.30 and $49.33 per share (1997 – ranging from $8.90 to $48.34 per share). During 1998, 511,000 options (1997 – 1,391,572 options) were granted to officers and employees at prices ranging from $30.00 to $49.33 per share (1997 – ranging from $24.95 to $48.34 per share), 190,902 options (1997 – 622,493 options) were exercised for cash proceeds of $2,423 (1997 – $6,926), and 17,000 options (1997 – 112,169 options) were cancelled.

(b) Equity offering:

On February 12, 1997, FSHI completed the issuance of 4,370,000 LVS for gross proceeds of $122,360. The net proceeds from the sale of the LVS, after deducting estimated offering expenses and underwriters' commission, were $113,699.

The Corporation used the net proceeds of the offering to repay all outstanding borrowings under the bank credit facility in 1997 (note 10(b)), to fund a loan in connection with acquiring the long-term management agreement for the Hôtel George V in Paris (note 4(b)), to invest in new hotel projects and for general working capital purposes.

(c) Equity adjustment from foreign currency translation:

The increase in the equity adjustment from foreign currency translation is primarily caused by changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations, offset by an amount transferred to "Foreign exchange gain" relating to the reduction of the Corporation's net investment in Regent (note 12).

12. Foreign exchange gain:

(a) During 1998, the Corporation reduced its net investment in its self-sustaining foreign subsidiary, Regent. The reduction was related to a capital restructuring whereby Regent repaid capital of approximately US$50,000 to the Corporation. A foreign exchange gain of $7,778, which is equivalent to the proportional amount (relating to the reduction in the net investment of Regent) of the foreign exchange gain accumulated in "Equity adjustment from foreign currency translation" in shareholders' equity, was recognized in income.

(b) The remainder of the foreign currency gain of $6,191 relates primarily to unrealized foreign currency translation gains on unhedged long-term receivables denominated in foreign currencies, primarily pound sterling and French francs, and translation gains and losses on intercompany amounts with self-sustaining foreign operations.

13. Income taxes:

Income tax expense shown in the consolidated statements of operations varies from the amount computed by applying the combined Canadian federal and provincial tax rates as follows:

	1998	1997
Earnings before income taxes	**$ 71,128**	$ 42,374
Items not deductible	**14,737**	7,940
Earnings subject to tax	**$ 85,865**	$ 50,314
Expected Canadian federal and provincial statutory tax rate	**41.5%**	41.5%
Expected income tax expense	**$ (35,634)**	$ (20,880)
Reduction in income tax due to lower foreign tax rates	**3,669**	3,143
Tax benefits of prior years' losses	**30,486**	16,302
Other	**53**	(169)
Income tax expense	**$ (1,426)**	$ (1,604)

The tax benefits relating to the provision for losses on hotel investments and related assets of $95,000 recorded in 1995 and $127,000 recorded in 1993 were not recognized at that time. The tax treatment of these losses will not be determined until the underlying assets are disposed of. The tax benefits of these provisions will be recorded in the year(s) in which the benefits are realized.

14. Commitments and Contingencies:

(a) Lease commitments:

The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2021. The lease terms may be extended under renewal options for periods up to the year 2069.

Future minimum lease payments, exclusive of any contingent rentals and occupancy costs, are as follows:

1999	$ 13,758
2000	15,635
2001	16,997
2002	16,350
2003	16,924
Subsequent to 2003	293,509
	$ 373,173

The total lease commitments include the lease commitments relating to the Four Seasons Hotel Berlin, which will commence when the hotel lease is transferred to the Corporation. The Corporation has entered into an operating lease, pursuant to which, once the hotel is operating in accordance with the Corporation's detailed technical specifications, the hotel lease will be transferred to the Corporation, at which time the Corporation will begin accounting for the hotel's operations on a consolidated basis. The effective date of the transfer of the hotel lease is subject to resolving a dispute with the owner arising from certain construction deficiencies alleged by the Corporation.

The Corporation has provided a US$5,000 letter of credit to support its obligations under the lease at The Pierre New York.

(b) Pension commitments:

The Corporation maintains a multi-employer non-contributory defined benefit pension plan (the "Plan") on behalf of the Corporation and the owners of certain managed hotels. The Plan provides pension benefits for certain senior executives of the Corporation and hotel general managers, based on years and level of service and annual salary.

Extrapolation of the actuarial valuation of the Plan dated January 1, 1998, based on projections of employees' compensation levels to the date of retirement, indicate an actuarial value of accumulated Plan benefits as at December 31, 1998 of $28,016 for 75 participants, of which the Corporation's share was approximately $17,830 for 35 participants. These benefits are financed by life insurance policies on the lives of each of the participants in the Plan. The Corporation's share of the cash surrender value of the policies as at December 31, 1998 was $14,859 (note 9).

In addition, the Corporation maintains an unfunded, non-contributory deferred compensation plan for the purpose of providing retirement benefits for certain other hotel general managers.

(c) Contingencies:

(i) The Corporation estimates and accrues for the losses, if any, it is likely to incur relating to uninsured contingent liabilities such as guarantees of third party debt, environmental matters, personal injury and property damage at owned or managed hotels, workers' compensation claims, etc. The Corporation's assessment of its potential liability for such matters could change, with the result that the accruals for contingent liabilities recorded in the Corporation's financial statements could increase by a material amount.

(ii) The Corporation is contingently liable for some or all of the obligations of certain of the managed hotels and/or partnerships and joint ventures in which it has a direct interest (note 5). However, against this contingent liability, the Corporation would have a claim upon the assets of the partnerships and joint ventures and, in certain limited cases, their partners.

(iii) The Corporation has guaranteed up to US$5,000, plus accrued interest, of the construction loan relating to the Four Seasons Resort Aviara. The Corporation has provided additional guarantees in connection with the vacation ownership development at the Four Seasons Resort Aviara. One such guarantee was entered into to allow lenders to the project access to any distributions received by the Corporation in respect of its ownership interest in the case of a default in respect of debt related to the development.

(iv) Until 1982, the Corporation held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately $22,000 (of which approximately $20,600 plus accrued interest was outstanding as at December 31, 1998) in connection with the property and the Corporation provided a several guarantee with respect to the financing. The Corporation sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of the Corporation's obligations under the mortgage. The Corporation has been advised by the mortgagee that a default has occurred under the mortgage and the mortgagee has commenced a proceeding against the Corporation and another guarantor. The Corporation is vigorously defending the suit and believes that, as a result of, among other things, the sale by the Corporation of its interest in the property and the resulting obligations of the purchaser, obligations of the Corporation, if any, to the mortgagee should be offset by corresponding claims against the purchaser.

(v) In the ordinary course of its business, the Corporation is named as defendant in legal proceedings resulting from incidents taking place at hotels owned or managed by it. The Corporation maintains comprehensive liability insurance and also requires hotel owners to maintain adequate insurance coverage. The Corporation believes such coverage to be of a nature and amount sufficient to ensure that it is adequately protected from suffering any material financial loss as a result of such claims.

(vi) A number of the Corporation's management contracts are subject to certain performance tests which, if not met, could allow a contract to be terminated prior to its maturity. The Corporation generally has various rights to cure any such defaults to avoid termination. In addition, certain management contracts are terminable by the hotel owner on a defined change of control of FSHI.

(vii) The Corporation has guaranteed certain obligations of various directors, officers, and employees in the amount of $1,303.

(d) Uncertainty due to the year 2000 issue:

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

The Corporation has established a plan to address the impact of the year 2000 on its information technology systems, including those systems at the corporate office, at the individual hotels and at individual suppliers. The Corporation has established a year 2000 task force to monitor the progress of the implementation of the year 2000 plan.

15. Fair value of financial instruments:

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As cash equivalents, current accounts receivable, current accounts payable and certain other short-term financial instruments are all short-term in nature, their carrying amounts approximate fair value.

The fair values of the Corporation's long-term debt are estimated using discounted cash flow analysis which are based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Other financial instruments held by the Corporation include interest bearing loans receivable due from owners of managed hotels (note 4). The Corporation does not have plans to sell these loans to third parties and will realize or settle them in the ordinary course of business. The fair value of these instruments cannot be reasonably estimated because no active and liquid market exists for these instruments, and a market rate of interest (for instruments having similar terms and characteristics) required to use estimation techniques such as discounted cash flow analysis cannot reasonably be determined due to the unusual terms of these instruments.

The Corporation enters into foreign exchange forward contracts that oblige it to buy or sell specific amounts of foreign currencies at set future dates at predetermined exchange rates. Because a significant portion of the Corporation's revenues are derived in foreign currencies (primarily US dollars) and expenditures incurred by the Corporation for its hotel management operations are denominated primarily in Canadian dollars, the Corporation enters into such contracts to protect itself in the event of a strengthening Canadian currency. Management estimates future foreign currency cash flows on an ongoing basis, based on its projections of foreign currency denominated management fees and other transactions. Management negotiates foreign exchange forward contracts in proportion to the magnitude and timing of these cash flows. As at December 31, 1998, the Corporation had sold forward US$139,805 (1997 – US$90,700), under 26 forward contracts (1997 – 14 forward contracts) maturing over a 25-month period.

Because the Corporation has significant long-term receivables in pound sterling, the Corporation, in 1998, entered into foreign exchange forward contracts to protect itself in the event of a strengthening Canadian currency. As at December 31, 1998, the Corporation had sold forward £37,651, under seven forward contracts maturing between February 1999 and March 2001.

The fair value of foreign exchange forward contracts is estimated from quotes obtained from the Corporation's counterparties for the same or similar financial instruments.

The fair value of financial instruments is as follows:

	Estimated fair value	Carrying amount
1998:		
Long-term debt	**$ 164,000**	**$ 164,987**
Foreign exchange forward contracts	**(4,600)**	**—**
1997:		
Long-term debt	139,000	140,241
Foreign exchange forward contracts	(4,500)	—

16. Segmented Information:

The Corporation has two distinct operating segments: Hotel Management Operations and Hotel Ownership Operations. Under its Hotel Management Operations segment, the Corporation generally supervises all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, the Corporation typically receives a base fee calculated as a percentage of gross revenues of the hotel. In addition, the Corporation may receive incentive fees based on the operating performance of the hotel. Generally, the hotel owners, and not the Corporation, fund substantially all capital expenditures and working capital of the hotel, including all employment and operating costs. This segment also includes the licensing and managing of vacation ownership projects. The Corporation is entitled to receive a fee for the use of its brand name in connection with these projects, and for services provided in the oversight of the sales and marketing of the vacation ownership units. In addition, the Corporation will receive a fee from the owners of the vacation ownership units for services provided in the ongoing management of these units.

Under its Hotel Ownership Operations segment, the Corporation had an equity interest in seven hotels under management, one vacation ownership property and five projects under construction as at December 31, 1998. Earnings are primarily derived from the consolidation of its wholly-owned interests in two hotels and distributions from its other equity interests. Generally, the Hotel Ownership Operations segment is labour intensive and is subject to greater economic fluctuations than the Hotel Management Operations segment. Hotel ownership returns can be materially affected by changes in travel patterns, local wage rate factors, the level of capital spending that is required to appropriately maintain and renew the hotel, volatility of construction costs, the availability of hotel financing and changes in interest rates. The Corporation structures its ownership interests separately from its management interests so as to enable the Corporation to dispose of ownership interests as sale opportunities arise, without affecting its management interests.

(a) Consolidated revenues:

			1998			1997
	Hotel Management revenues	**Hotel Ownership revenues**	**Total consolidated revenues**	Hotel Management revenues	Hotel Ownership revenues	Total consolidated revenues
United States	**$ 82,740**	**$ 92,401**	**$ 175,141**	$ 67,358	$ 101,879	$ 169,237
Canada	**6,723**	**34,356**	**41,079**	5,577	33,792	39,369
United Kingdom and Europe	**17,041**	**—**	**17,041**	5,700	—	5,700
Asia/Pacific	**20,443**	**2,030**	**22,473**	27,361	5,991	33,352
	126,947	**128,787**	**255,734**	105,996	141,662	247,658
Less inter-segment revenues	**(6,956)**	**—**	**(6,956)**	(7,265)	—	(7,265)
	$ 119,991	**$ 128,787**	**$ 248,778**	$ 98,731	$ 141,662	$ 240,393

(b) Earnings from operations:

General and administrative expenses of the Hotel Management Operations have been allocated to specific geographic segments based on the percentage of revenues earned by the Hotel Management Operations in those geographic segments.

	1998			1997		
	Earnings before other operating items	Other operating items	Earnings from operations	Earnings before other operating items	Other operating items	Earnings (loss) from operations
United States	$ 59,849	$ (5,131)	$ 54,718	$ 50,183	$ (6,871)	$ 43,312
Canada	2,547	(1,122)	1,425	3,996	(12,899)	(8,903)
United Kingdom and Europe	9,118	5,552	14,670	2,583	(528)	2,055
Asia/Pacific	17,715	(13,598)	4,117	22,317	(7,475)	14,842
	$ 89,229	$ (14,299)	$ 74,930	$ 79,079	$ (27,773)	$ 51,306

(c) Total assets:

	1998	1997
United States	$ 238,924	$ 195,081
Canada	82,512	66,546
United Kingdom and Europe	145,360	77,745
Asia/Pacific	78,260	113,840
	$ 545,056	$ 453,212

General

On December 20, 1994, The Toronto Stock Exchange Committee on Corporate Governance in Canada issued a series of guidelines for effective corporate governance (the "Guidelines"). As a result, the by-laws of The Toronto Stock Exchange and of the Montreal Exchange have been amended to require disclosure on an annual basis of the approach to corporate governance by companies listed on such exchanges. The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

The Board of Directors

The Board of Directors of FSHI (the "Board") acknowledges its statutory mandate to supervise the management of the business and affairs of FSHI. The Board, in fulfilling this mandate and discharging its duty of stewardship of FSHI, assumes responsibility for the following:

(a) reviewing and approving the strategic planning and business objectives that are submitted by management and working with management in the implementation of the strategic plan;

(b) the identification of the principal business risks for the Corporation and the implementation and monitoring of appropriate risk management systems, with the Audit Committee assisting the Board in the monitoring of the risks and reporting on these matters regularly to the Board;

(c) ensuring internal control and management information systems for the Corporation are in place and are evaluated as part of the internal auditing process and that they are also reviewed periodically by the Audit Committee, with the Audit Committee assessing the effectiveness of the internal control and management information systems through meetings held with the external auditors, as appropriate, and senior management and a review of reports prepared by senior management;

(d) assessing the performance of the Corporation's executive officers, including monitoring the establishment of appropriate systems for succession planning and for approving the compensation levels of such executive officers based on the recommendations of the Compensation and Organization Committee; and

(e) ensuring that the Corporation has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The Board is scheduled to meet five times a year and meets more frequently if required. During the 1998 fiscal year, the Board held seven meetings.

The Guidelines suggest that every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. The Guidelines suggest that the chairman of the board of directors should not be a member of management or, alternatively, that the board adopt equivalent procedures such as assigning the responsibility of ensuring that the board discharges its responsibility to a lead director or committee of the board. In this respect, the Corporation has adopted a variety of structures to allow for the independence of the Board from management, including the appointment of a lead director, the practice of having non-management members of the Board meeting periodically as a group, the Board initiating discussions with senior management without the Chief Executive Officer present so that they may voice their concerns, and the ongoing monitoring of the relationship between the Board and management by the Corporate Governance Committee.

Another of the Guidelines recommends that the board of directors and the chief executive officer should develop position descriptions for the board and for the chief executive officer that define the limits of management's responsibilities. In this regard, the Corporation has taken a different approach. The Board has adopted a job description and statement of functions for the Chief Executive Officer which delegates to him the day to day responsibility for directing the Corporation and for meeting the corporate objectives approved by the Board. The Chief Executive Officer reports formally to the Board, as well as informally through discussions with one or more members of the Board to advise

the Board on courses of action that have been taken. The Board exercises its responsibility for oversight through the approval of all significant decisions and initiatives. The Board is satisfied that the Chief Executive Officer has reported to and sought the consent of the Board where necessary and appropriate.

Board Composition

The Guidelines require careful consideration of the size, composition and relative independence of corporate boards. According to the Guidelines, an "unrelated" director is a director who is independent of management and is free from any interest and any business or other relationship that could, or could reasonably be perceived to, interfere materially with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. The Guidelines emphasize the ability to exercise objective judgment, independent of management, as a hallmark of an unrelated director.

The Board has 14 members, and believes that its size promotes effectiveness and efficiency and falls within the range suggested by the Guidelines. The Board, in conjunction with the Corporate Governance Committee, has determined, after reviewing the roles and relationships particular to each of the directors, that seven of the 14 directors of FSHI who served in the 1998 financial year were related. The directors who are considered to be unrelated are Nan-b de Gaspé Beaubien, Charles S. Henry, Murray B. Koffler, J. Robert S. Prichard, Benjamin Swirsky, Shuichiro Tamaki and Simon Turner.

While the Guidelines recommend that a corporation should be constituted with a majority of individuals who qualify as unrelated directors, the Board believes that it has and continues to function independently of management.

Mr. Isadore Sharp is a "significant shareholder" (as defined in the Guidelines) of FSHI since he controls shares carrying the ability to exercise a majority of the votes for the election of the Board. The Guidelines suggest that where there is a significant shareholder, the Board should include a number of directors who do not have interests in or relationships with either the Corporation or the significant shareholder and who fairly reflect the investment in FSHI by shareholders other than the significant shareholder. Seven of the directors who served in the 1998 financial year are unrelated to the significant shareholder and are unrelated to the Corporation. The Board believes that, at present, this balance serves the Corporation's needs.

In 1997, the articles of FSHI were amended to permit holders of Limited Voting Shares, as a class, to elect two members of the Board. Accordingly, at each annual meeting of shareholders two members of the Board are elected by holders of Limited Voting Shares. At the Annual Meeting of the Shareholders on May 28, 1998, Nan-b de Gaspé Beaubien and J. Robert S. Pritchard were elected by the holders of the Limited Voting Shares.

The Board has three committees. These Committees are generally composed of outside directors, a majority of whom are unrelated directors. In this regard, the Corporation complies with the Guidelines. The only member of management represented on a committee is the Chief Executive Officer, who sits on the Compensation and Organization Committee. The Chief Executive Officer is not present when matters relating to his own compensation are being discussed.

Committees of the Board of Directors

The Committees are appointed annually following the election of the Board of Directors at the Annual Meeting of Shareholders. In 1998, the Committees of the Board were as follows:

Audit Committee Members: Murray B. Koffler, Lionel H. Schipper, Simon Turner, Benjamin Swirsky (Chairman).

The Audit Committee has primary oversight responsibility for the Corporation's financial reporting, risk management and internal controls. The Committee has unrestricted access to the Corporation's personnel and documents and to the Corporation's external auditors. The Audit Committee reviews the annual financial statements and recommends their approval to the Board. The Audit Committee reviews the scope and planning of the external audit, the form of audit report and any correspondence from or comment by the external auditors regarding financial reporting and internal controls. Accordingly, the Corporation complies with the applicable Guidelines.

Compensation and Organization Committee Members: Charles S. Henry, Edmond Creed, Nan-b de Gaspé Beaubien, Lionel H. Schipper (Chairman), Benjamin Swirsky, Isadore Sharp.

The Compensation and Organization Committee ensures that a process is in place to maintain the compensation program for the senior executive officers of the Corporation at a fair and competitive level. The Committee ensures that programs related to manpower planning, management development, succession planning, career path planning and performance evaluation are effectively integrated with the Corporation's strategy. The Committee reviews the compensation and remuneration of the Board. Accordingly, the Corporation complies with the applicable Guidelines.

Corporate Governance Committee Members: Charles S. Henry, Murray B. Koffler (Chairman), J. Robert S. Prichard, Lionel H. Schipper, Benjamin Swirsky.

The Corporate Governance Committee's mandate is to enhance the Corporation's corporate governance through continuing assessment and policy recommendations on the Corporation's approach to corporate governance. The Committee develops for the approval of the Board the report on the Corporation's corporate governance practices. When necessary, the Committee determines suitable candidates for nominees as directors, periodically reviews the mandates of committees of the Board, and assesses the effectiveness of the directors, oversees an orientation and education program for new recruits to the Board in order to familiarize them with the business of the Corporation, reviews the relationship between management and the Board, and assesses the Board's effectiveness as a whole. The Committee has also been granted the authority and direction to take such other initiatives as are needed to help the Board address corporate governance issues and to approve the engagement of independent advisors for individual directors at the expense of the Corporation, if the need should arise. Accordingly, the Corporation complies with the applicable Guidelines.

Communicating to Shareholders

The Board of Directors of FSHI is committed to an effective communications policy for the benefit of all stakeholders including shareholders, debt holders, suppliers, guests, governmental authorities, employees and members of the investment community. In addition to its timely and continuous disclosure obligations under applicable law, the Corporation maintains an Investor Relations Department and ensures that senior management are available to shareholders to respond to questions and concerns. Shareholder concerns are dealt with on an individual basis, usually by providing requested information. Material concerns and questions raised by shareholders to senior management are reported by senior management to the Board.

The Board has also adopted a policy for dealing with analysts and the financial press so as to ensure a dialogue between the investment community and the Corporation to facilitate the dissemination of information. The policy involves quarterly meetings with analysts conducted by senior management, with the Corporation's Chief Corporate Officer involved to the extent practicable.

CORPORATE DIRECTORY

Directors

Edmond M. Creed*
Retired Executive

Nan-b de Gaspé Beaubien*
Vice Chairperson (and Director)
Gasbeau Company

Frederick Eisen
President and CEO
The Eisen Corporation

H. Roger Garland

Charles S. Henry***
President
Hotel Capital Advisers, Inc.

Murray B. Koffler+**
Partner
The Koffler Group

J. Robert S. Prichard**
President
University of Toronto

Lionel H. Schipper*+**
President
Schipper Enterprises Inc.

Isadore Sharp*

John L. Sharpe

Benjamin Swirsky*+**
President and
Chief Executive Officer
Beswir Capital Inc.

Shuichiro Tamaki
Advisor
Jowa Corporation

Simon M. Turner+
Principal
Hotel Capital Advisers, Inc.

Christopher Wallis

* Member of Compensation and Organization Committee
\+ Member of Audit Committee
** Member of Corporate Governance Committee

Honorary Past Directors

Mustafa I. Al-Hejailan
Managing Director International
Kingdom Establishment

Max Sharp
Retired Executive

Officers

Isadore Sharp
Chairman and
Chief Executive Officer

John L. Sharpe
President and
Chief Operating Officer

H. Roger Garland
Vice Chairman

Christopher Wallis
Executive Vice President

Wolf H. Hengst
Executive Vice President

Douglas L. Ludwig
Executive Vice President,
Chief Financial Officer
and Treasurer

Craig O. Reith
Vice President Finance
and Assistant Treasurer

Kathleen Taylor
Executive Vice President,
Chief Corporate Officer
and Secretary

Management Committee

Antoine Corinthios
President
Europe, Africa and Middle East

H. Roger Garland
Vice Chairman

Wolf H. Hengst
Executive Vice President
Operations

Douglas L. Ludwig
Executive Vice President,
Chief Financial Officer
and Treasurer

Isadore Sharp
Chairman and
Chief Executive Officer

Anthony Sharp
Executive Vice President
Vacation Ownership

John L. Sharpe
President and
Chief Operating Officer

Barbara M. Talbott
Executive Vice President
Marketing

Kathleen Taylor
Executive Vice President
Chief Corporate Officer
and Secretary

Christopher Wallis
Executive Vice President
Design and Construction

John W. Young
Executive Vice President
Human Resources

Area Vice Presidents

Charles J. Ferraro
Western North America,
Mexico and the Caribbean

James G. FitzGibbon
President, Four Seasons Asia

Nicholas Mutton
Eastern North America

Regional Vice Presidents

Marcos Bekhit
Istanbul

Stan Bromley
Washington, D.C.

Ignacio Gomez
Mexico City

Tom Gurtner
Hong Kong

Neil Jacobs
Singapore

Peter G. Martin
Seattle

John Stauss
London

Corporate Vice Presidents

James Cardy
Senior Vice President, Purchasing

David B. Crowl
Vice President, Sales

Michael Duwaji
Senior Vice President
Finance, Operations

Stuart Fearnley
Vice President, Design
and Construction

Ivan Goh
Senior Vice President, Rooms

Susan J. Helstab
Senior Vice President
Corporate Communications

Barbara Henderson
Vice President
Taxation and Investor Relations

Michael Hwu
Vice President
Management Information Systems

H. E. (Duffy) Keys
Senior Vice President
Business Development

Alfons E. Konrad
Senior Vice President
Food and Beverage

Roy A. Paul
Senior Vice President, Development

Craig O. Reith
Vice President Finance
and Assistant Treasurer

James C. (Jay) Riley
Vice President, Hotel Marketing

Jonathan Sicroff
Vice President
Sales and Marketing, Asia

Sandra Ward
Vice President
Human Resources, International

Randolph Weisz
Senior Vice President
General Counsel

Corporate Offices

Four Seasons Hotels and Resorts
1165 Leslie Street
Toronto, Ontario
Canada M3C 2K8
Telephone: (416) 449-1750
FAX: (416) 441-4374
www.fourseasons.com

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Wednesday, May 12, 1999 in the Regency Ballroom, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, Canada

Stock Listings

The Toronto Stock Exchange
The Montreal Exchange
Stock Ticker Symbol: FSH

The New York Stock Exchange
Stock Ticker Symbol: FS

Dividend Information

11 cents per Limited Voting Share and 5.5 cents per Variable Multiple Voting Share per annum (post-split basis) paid semi-annually in January and July

Transfer Agent and Registrar

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

The Bank of Nova Scotia
Trust Co. of New York
New York

Auditors

KPMG LLP

Shareholder Information

Please call Barbara Henderson, Vice President, Investor Relations at (416) 441-4329

Reservations Information

For reservations at Four Seasons Hotels and Resorts, please call toll-free:

(800) 268-6282 in Canada
(800) 332-3442 in the United States

For reservations at Regent International Hotels, please call toll-free: (800) 545-4000 in Canada and the United States

FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS

FOUR SEASONS

Hotels and Resorts